

APPROVED BY:  
Resolution of the Board of Directors  
of Sistema-Hals JSC  
Minutes No. 4  
April 12, 2011

**CODE OF CORPORATE CONDUCT**  
**of Joint Stock Company Sistema-Hals**  
(redraft)

Moscow, 2011

## **Contents**

I. GENERAL .....	3
II. CONCEPT AND PRINCIPLES OF CORPORATE GOVERNANCE.....	3
III. GENERAL MEETING OF SHAREHOLDERS.....	4
IV. COMPANY' BOARD OF DIRECTORS .....	5
V. EXECUTIVE BODIES OF THE COMPANY .....	8
VI. CORPORATE SECRETARY OF THE COMPANY.....	9
VII. MATERIAL CORPORATE ACTIONS.....	10
VIII. DISCLOSURE OF INFORMATION ON THE COMPANY.....	11
IX. CONTROL OVER FINANCIAL AND ECONOMIC ACTIVITY OF THE COMPANY .....	12
X. DIVIDENDS OF THE COMPANY .....	13
XI. RESOLUTION OF CORPORATE CONFLICTS .....	14
XII. FINAL PROVISIONS .....	14
XIII. APPLICATION OF THE CODE .....	14

## **I. GENERAL**

1.1. This Code of Corporate Conduct of Sistema-Hals JSC (hereinafter, the “Code”) is developed with account of recommendations set forth in the code of corporate conduct approved by Decree No.421/r issued by the Russian Federal Securities Commission on 04.04.2002, analysis of corporate conduct practice both within and outside Russia, considering the laws of the Russian Federation, Articles of Association of Sistema-Hals JSC, internal documents of Sistema-Hals JSC.

1.2. The aim of this Code application shall be protection of interests of all shareholders Sistema-Hals JSC (hereinafter also, the Company) irrespective of the quantity of shares owned by them.

1.3. The main purposes of this Code application shall be:

- increasing the Company’s attraction as an investment;
- attracting long-term investors;
- decreasing loan pricing;
- increasing the market value of the Company (increasing the capitalization).

1.4. This Code shall unfold the basic principles of the best corporate governance practice underlying the Company’s corporate governance system, and also contain recommendations on implementing such principles and disclosing the relevant information.

1.5. Special emphasis shall be made herein on the following issues:

- preparing and holding the General Meeting of Shareholders;

- electing and supporting the efficient activity of the Board of Directors, executive bodies (Management Board, President);

- disclosing information on the Company’s business and affairs;

- preparing and holding major corporate events (mergers, reorganization).

1.6. Recognizing the importance of the high-level corporate governance for successful conduct of business by the Company and for achievement of mutual understanding between all persons interested in the Company’s activity, Sistema-Hals JSC shall voluntarily commit to follow up principles laid down herein in its activity and apply all reasonable efforts for compliance therewith by the Company in its everyday operations.

## **II. CONCEPT AND PRINCIPLES OF CORPORATE GOVERNANCE**

2.1. Corporate governance within the Company shall be a system of interrelations between the Company’s executive bodies, its Board of Directors, Shareholders and other interested persons on issues of ensuring the Company’s efficient business and protection of interests of owners and other parties concerned.

2.2. The basic corporate governance principles of the Company shall be as follows:

- to ensure an actual opportunity for the Company’s shareholders to exercise their rights relating to participation in the Company;

- to ensure equal attitude to the Company’s Shareholders, who own equal quantity of shares of one type (category), to ensure a practical opportunity to the Company’s shareholders to obtain effective protection, if their rights are violated;

- to ensure that the Company’s Board of Directors pursues strategic management of the Company’s activity and its effective control over activity of the Company’s executive bodies, and also that members of the Board of Directors are accountable to its shareholders;

- to ensure an opportunity to the Company’s executive bodies to perform effective management of the Company’s current activity reasonably, in good faith, and solely for the benefit of the Company, and also accountability of the executive bodies to the Company’s Board of Directors and its shareholders;

- to ensure timely disclosure of complete and reliable information on the Company, including its financial status, economic indicators, ownership structure and management with a

view to provide for an opportunity to pass reasoned resolutions by the Company's Shareholders and investors;

- to account for the statutory rights of persons concerned, including employees of the Company, and to encourage active cooperation of the Company and the interested persons with a view to increase the Company's assets, value of shares and other securities of the Company, to create new jobs;

- to ensure effective control over financial and economic activity of the Company with the view to protect the rights and lawful interests of Shareholders.

### **III. GENERAL MEETING OF SHAREHOLDERS**

3.1. Practice of the Company's corporate governance shall specify the Shareholders' right to receive from the Board of Directors and executive bodies of the Company a detailed and reliable report on the policy pursued by the Company. Holding a General Meeting of Shareholders makes it possible for the Company, at least once a year, to inform the Shareholders on its operation, achievements and plans, to engage them to discussing and passing resolutions on the crucial issues of the Company's activity.

3.2. The procedure for preparing and holding the General Meeting of Shareholders shall be regulated by the laws of the Russian Federation, Articles of Association of the Company and Regulations on the General Meeting of the Company's Shareholders.

3.3. A notice of a General Meeting of Shareholders should be issued not later than 30 days prior to its date.

3.4. A notice of a General Meeting of Shareholders should be issued not later than 70 days prior to its date, if the proposed agenda of an extraordinary General Meeting of Shareholders contains the following issues:

- election of members of the Company's Board of Directors;
- formation of a sole executive body of the Company and/or anticipatory termination of powers of such body in accordance with Clauses 6 and 7 of Article 69 of Federal Law No.208-FZ of 26.12.1995 "On Joint Stock Companies";
- reorganization of the Company in the form of merger, spin-off or demerger and election of the Board of Directors (supervisory board) of the company incorporated by way of reorganization in the form of merger, spin-off or demerger.

3.5. The notice of the General Meeting of Shareholders should contain the following:

- full corporate name of the Company and location of the Company;
- form of General Meetings of Shareholders (a meeting or absentee voting);
- date, place, time of the General Meeting of Shareholders and a mailing address for forwarding the completed bulletins, and, if the General Meeting of Shareholders is held in the form of absentee voting, deadline for acceptance of voting bulletins and a mailing address for forwarding the completed bulletins;
- time when registration begins of persons (their representatives) eligible for participation in the General Meeting of Shareholders;
- date of compiling a list of persons eligible for participation in the General Meeting of Shareholders;
- agenda of the General Meeting of Shareholders;
- procedure for familiarizing with information (materials) to be presented to the persons eligible for participation in the General Meeting of Shareholders and an address (addresses) where it is possible to get familiarized with them;
- other information (materials) depending on agenda items of the General Meeting of Shareholders in accordance with the requirements of the current laws.

3.6. The notice of the General Meeting of Shareholders shall be sent to each person entered into the list of persons eligible for participation in the General Meeting of Shareholders by

registered mail or delivered to every such person against signature; in addition, the notice of the General Meeting of Shareholders may be placed in the Internet website of the Company.

3.7. The Company shall ensure that Shareholders, who own at least one per cent of votes, have an opportunity to familiarize themselves with the list of persons eligible for participation in the General Meeting of Shareholders from the date of the notice of the General Meeting of Shareholders in the place specified for provision of information to the General Meeting of Shareholders, subject to requirements of the personal data laws.

3.8. The Company shall provide for the right of a shareholder(s), who owns (own) in aggregate at least 2 per cent of the Company's voting shares, to enter items into an agenda of the Annual General Meeting of Shareholders and to nominate candidates to the Company's Board of Directors and the Auditing Commission of the Company. The Company shall not request producing any documents proving the rights to shares of the shareholder registered in the register of shareholders kept by a specialist registrar. If shares are accounted for at a custody account, a statement of the custody account shall be recognized a sufficient proof of the rights to shares.

3.9. The Company shall seek to provide that information submitted in the course of preparation to the General Meeting of Shareholders, and also its submission procedure allow that the Shareholders get full picture of the Company's activity and pass reasonable resolutions on items of the agenda.

3.10. Information to the General Meeting of Shareholders shall be provided in premises at the location of the Company's President and may be additionally placed at the Internet website of the Company.

3.11. Before the General Meeting of Shareholders the Shareholders will receive recommendations reflecting the motivated position of the Board of Directors with regard to voting on agenda items (draft resolutions) of the General Meeting of Shareholders.

3.12. When determining the place, date and time of the General Meeting of Shareholders, the Company shall take as a premise that it is necessary to give to the Shareholders a practical and easy opportunity to take part in it.

3.13. Items of the agenda of the General Meeting of Shareholders shall be defined so that to reduce to the maximal extent any possibility of their ambiguous or varying interpretations.

3.14. The procedure for registration of participants of the General Meeting of Shareholders are worked out and fixed in the Company's internal documents so that not to hamper participation therein.

3.15. The Regulations on the General Meeting of the Company's Shareholders shall specify reasonable and sufficient time for reports on agenda items and the time for discussing the same.

3.16. The Chairman of the Company's Board of Directors shall preside at the General Meeting of Shareholders, and if s/he is absent, this shall be a person selected by the Board of Directors from among its members.

3.17. Voting at the General Meeting of Shareholders shall be held using voting bulletins. The Company shall seek to elaborate and implement an effective voting mechanism for protection of minority Shareholders against unfair attitude.

3.18. With a view to observe the Shareholders' rights to the maximum when summarizing voting results, the Company aim at summarizing and announcing the voting results on the day of holding the General Meeting of Shareholders (before it comes to an end).

#### **IV. COMPANY'S BOARD OF DIRECTORS**

4.1. The Company shall consider availability of an effective, professional and independent Board of Directors as a key element of high-quality corporate governance. The Company's Board of Directors shall impact the efficiency of the Company's operation via general strategic management and control over the work of the Company's executive bodies for the benefit of the Company and its Shareholders. Effective interaction between the Company's Board

of Directors and executive bodies of the Company, a clear-cut separation of their powers shall be a key factor in providing for the good corporate governance practice.

4.2. The major purposes of the Board of Directors' functioning shall lie in overseeing the effective management of the Company's activity for the sake of the long-term sustainable development of the Company, increase in its assets, protection of rights and lawful interests of its Shareholders.

4.3. The Company's Board of Directors shall perform the following major functions, it shall:

- define the strategy of the Company's development and approve the annual budget;
- provide for effective control over financial and economic activity of the Company;
- provide for exercise and protection of the Shareholders' rights, and also assist in settlement of corporate conflicts;
- provide for effective functioning of the Company's executive bodies, *inter alia*, through control over their activity;

4.4. Operating principles, competence, operating procedures of the Board of Directors, rights and responsibilities of members of the Board of Directors shall be specified in the Articles of Association of the Company and an internal document of the Company – Regulations on the Board of Directors.

#### **Membership of the Company's Board of Directors and its Formation**

4.5. Members of the Company's Board of Directors shall ensure the most effective performance of incumbent functions.

4.6. The Company's Board of Directors shall be elected on an annual basis by the Annual General Meeting of Shareholders in the quantity to be fixed by the General Meeting of Shareholders.

4.7. An independent director as a member of the Company's Board of Directors shall contribute to forming an objective opinion by the Board of Directors on the discussed issues.

4.8. An independent director shall be a member of the Company's Board of Directors who:

(1) has not been within the recent 3 years and is not an official (manager) or employee of the Company, as well as an official or employee of the Company's management company;

(2) is not an official of any other business entity, in which any of this Company's officials is a member of the nomination and compensation committee of the board of directors;

(3) is not an affiliate of an official (manager) in the Company (an official of the Company's management company);

(4) is not the Company's affiliate, and affiliate of such affiliate;

(5) is not, together with the Company, parties to obligations, under conditions of which they may acquire property (receive cash funds) amounting to 10 and more per cent of the aggregate annual income of the said persons, save remuneration for participation in activity of the Company's Board of Directors;

(6) is not a major counterparty of the Company (a counterparty, an aggregate volume of whose transactions with the Company within a year is 10 or more per cent of the book value of the Company's assets);

(7) is not a representative of the State.

An independent director may not be considered as independent upon expiration of 7 years of being a member of the Company's Board of Directors.

4.9. In order to form a wide spectre of opinions on the discussed issues and tangible impact of independent directors on resolutions passed by the Board of Directors, the membership of the Board of Directors should include at least one independent director qualified under para.4.8 hereof.

4.10. In its Internet website the Company shall disclose information on the quantity of independent members in the Board of Directors and their names.

4.11. If on occurrence of certain events the independent director ceases to be qualified as such, s/he should file an application to the Board of Directors stating such changes and events.

4.12. Members of the Company's Board of Directors shall be elected via a transparent procedure accounting for a variety of Shareholders' opinions and ensuring compliance of the membership of the Company's Board of Directors to statutory requirements and allowing election of independent directors.

4.13. The Articles of Association of the Company shall fix the procedure for electing the Company's Board of Directors by cumulative voting, and this enables account of opinions of all Shareholders, including those who owns small shareholdings (minority Shareholders).

#### **Rights and Responsibilities of Members of the Company's Board of Directors**

4.14. Members of the Board of Directors should discharge the incumbent responsibilities in good faith and reasonably for the benefit of the Company, exercise care and prudence expectable from a good manager in a similar situation under similar circumstances.

4.15. Members of the Board of Directors should take active part in meetings of the Board of Directors and committees of the Board of Directors.

4.16. Members of the Board of Directors should not disclose and use for personal benefit or for the benefit of third persons any confidential information on the Company and insider information. Members of the Board of Directors should notify in writing of any fact of holding securities of the Company and its subsidiaries and dependent companies, of an intent to make transactions with securities of the Company, its subsidiaries and dependent companies, and also of any closed transactions with such securities.

4.17. Members of the Board of Directors shall be entitled to demand provision of additional information, if such information is required for making a better decision, and officials of the Company should furnish the members of the Board of Directors with such information.

4.18. Every member of the Board of Directors shall be entitled to demand calling a meeting of the Board of Directors for discussing any issue, if it appears to him/her that such issue needs prompt discussion for the benefit of the Company and requires that the Board of Directors passes a relevant resolution.

#### **Organizing the Activities of the Company's Board of Directors**

4.19. Meetings of the Company's Board of Directors shall be held regularly pursuant to the plan of meetings of the Company's Board of Directors with a list of issues to be considered at relevant meetings. Such list, which may be changed and added, shall be compiled by the Corporate Secretary with account of opinions of persons and bodies eligible, under the laws of the Russian Federation and Articles of Association of the Company, to demand calling a meeting of the Company's Board of Directors.

4.20. Meetings of the Company's Board of Directors may be held in the form of joint presence or absentee voting.

4.21. The form of the meeting of the Board of Directors shall be determined by the Chairman of the Board of Directors considering importance of agenda items.

4.22. In order to enhance efficiency and quality of the Board of Directors' functioning, the Company shall establish committees: Strategy Committee, Audit Committee, Nomination and Compensation Committee, Corporate Governance Committee.

4.23. The above committees shall be intended for preliminary review of the most crucial issues within the competence of the Board of Directors and for preparation of recommendations to the Board of Directors with regard to such issues.

4.24. Quantity, membership, formation procedure and functions of committees under the Board of Directors shall be determined by relevant Regulations on the committees.

4.25. The Company's Board of Directors shall keep detailed minutes of its meetings, where discussion of all issues is properly fixed. The minutes shall be signed by the Chairman of the Board of Directors and by the Secretary of the Company's Board of Directors.

### **Remuneration of Members of the Company's Board of Directors**

4.26. Under a resolution passed by the General Meeting of Shareholders, members of the Company's Board of Directors shall receive, while discharging their functions, remuneration and compensation for expenses relating to discharging by them the functions of members of the Company's Board of Directors.

4.27. The Company shall seek that the remuneration amount paid to members of the Company's Board of Directors be attributable to performance of the Company, increase in its capitalization.

4.28. Remuneration amounts paid to members of the Company's Board of Directors shall depend on personal participation of every member of the Board of Directors in work of the Company's Board of Directors and long-term development of the Company.

## **V. EXECUTIVE BODIES OF THE COMPANY**

5.1. Fulfillment of resolutions passed by the General Meeting of Shareholders and Board of Directors, and operating management of the Company's activity shall be effected by a collegiate executive body (Management Board) and a sole executive body (President).

5.2. The competence of the Management Board and President shall be defined in the Articles of Association of the Company.

5.3. Executive bodies of the Company shall act in accordance with the laws of the Russian Federation, Articles of Association of the Company, Regulations on the President and Management Board of the Company, other internal documents of the Company.

5.4. The procedure for formation of the Management Board that allows the most efficient discharge of the incumbent functions shall be specified in the Articles of Association of the Company.

5.5. The competence of the Management Board shall include, *inter alia*, resolution of such issues as follows:

- 5.5.1. to prepare business plans of large investment projects, financial and economic plans, budgets, investment and production programs, and also the strategy for the Company's development and relevant progress reports for submission to the Company's Board of Directors;
- 5.5.2. to pass a resolution on position of the Company (the Company's representatives) towards any issues put for consideration by General Meetings of Shareholders and boards of directors of subsidiaries and dependent companies;
- 5.5.3. to pass resolutions on the Company's participation and termination of its participation in other organizations, in particular, on incorporation of subsidiaries and dependent companies of the Company;
- 5.5.4. to approve candidates subject to nomination to the membership of management bodies and auditing commissions of subsidiaries and dependent companies of the Company, and to approve wordings of items to be included into agendas of such companies' management bodies and draft resolutions on the same;
- 5.5.5. to approve requirements to qualification, principles of performance evaluation and motivation systems for employees of the Company;
- 5.5.6. to ratify transactions connected with disposal or possible disposal by the Company of real property valued not above 10% (ten per cent) of the book value of the Company's assets.

5.6. The President shall be appointed by the Board of Directors for a period specified in the Articles of Association of the Company.

5.7. The President shall discharge functions of the chairman of the Company's Management Board.

5.8. The President and members of the Company's Management Board undertake to refrain from actions that may result in a conflict between interests of such official and the Company.

5.9. The President and members of the Management Board shall disclose any information on a fact of holding the Company's securities, on an intent to make transactions with securities of the Company, its subsidiaries and dependent companies, and also on the closed transactions with such securities.

5.10. Meetings of the Management Board shall be held periodically in the form of joint presence. The procedure for calling and holding a meeting shall provide for an opportunity for all members of the Management Board to get acquainted with meeting materials in advance. If necessary, the Management Board shall review issues not included into the approved agenda; field meetings shall be held as well.

5.11. When fixing the remuneration amount payable to the President and members of the Company's Management Board, the Company shall ensure that the remuneration corresponds to their qualification and accounts for a practical contribution into outcomes of the Company's activity. Information on a sum paid for the recent ended financial year as remunerations and compensations to the entire membership of the Management Board of the Company shall be disclosed in the Company's annual report and in a quarterly report of a securities issuer.

5.12. The President and members of the Management Board shall aim at discharge of responsibilities relating to current management of the Company's activity, in good faith and with good competence.

## **VI. CORPORATE SECRETARY OF THE COMPANY**

6.1. The Corporate Secretary of the Company shall provide for compliance by the Company's bodies and officials of corporate conduct specified by the laws of the Russian Federation and internal documents of the Company and guaranteeing exercise of rights and interests of the Company's Shareholders.

6.2. The Corporate Secretary shall be appointed and dismissed by the Company's Board of Directors.

6.3. The Corporate Secretary shall be subordinate to the Company's Board of Directors.

6.4. The Corporate Secretary of the Company shall act on the permanent basis in accordance with the Articles of Association of the Company, Regulations on the Corporate Secretary and its job description.

6.5. The Corporate Secretary of the Company shall perform the following major functions:

6.5.1. to provide for preparing and holding General Meetings of Shareholders in accordance with the requirements of the laws, Articles of Association of the Company and Regulations on General Meetings of Shareholders;

6.5.2. to provide for preparing and holding meetings of the Company's Board of Directors in accordance with the requirements of the laws, Articles of Association of the Company and Regulations on the Company's Board of Directors;

6.5.3. to ensure proper consideration by the Company of Shareholders' appeals and settlement of conflicts relating to violation of Shareholders' rights;

6.5.4. to control over disclosure (submission) of information relating to the Company and to provide for custody of the Company's documents.

6.6. The Corporate Secretary of the Company should possess knowledge required for discharge of the incumbent functions, enjoy confidence of Shareholders and members of the Company's Board of Directors and possess good business reputation.

6.7. The status, appointment procedure and powers of the Company's Corporate Secretary shall be specified in the Regulations on the Corporate Secretary of the Company.

6.8. Bodies and officials of the Company should assist the Corporate Secretary of the Company in discharge of his/her functions.

## VII. MATERIAL CORPORATE ACTIONS

7.1. The Company shall provide that any proceedings possibly resulting in fundamental corporate changes, including changes in rights of the Shareholders (material corporate actions), are accompanied with the maximal openness and transparency.

7.2. The following actions shall be recognized as material corporate actions of the Company:

- making major transactions and related party transactions;
- acquiring more than 30 per cent of placed ordinary shares (take-over) of the Company;
- reorganization and liquidation of the Company;
- decrease or increase in the Authorized Capital of the Company;
- amendments of the Articles of Association of the Company.

7.3. The Company shall ensure that the Shareholders have an opportunity to influence material corporate actions by specifying a transparent and equitable procedure based on proper disclosure of information on possible aftereffects of such actions for the Company.

7.4. Major transactions and related party transactions shall be, prior to their closing, reviewed and approved by the relevant management bodies of the Company – by the General Meeting of Shareholders or by the Company's Board of Directors.

7.5. Acquisition of more than 30 per cent of the Company's placed ordinary shares (take-over) shall be effected in accordance with the requirements stipulated in Chapter XI.I of Federal Law No.208-FZ of 26.12.1995 "On Joint Stock Companies" (hereinafter, the Law), in particular:

- after the Company has received a voluntary or mandatory proposal, the Company's Board of Directors should issue recommendations on the received proposal, which include evaluation of the proposed price for the securities to be acquired and possible change in their market value after the acquisition, evaluation of plans of a person, who has delivered the voluntary or mandatory proposal, towards the Company, *inter alia*, towards its employees;
- the Company should, within 15 days following the date of receipt of the voluntary or mandatory proposal, forward the said proposal accompanied by recommendations of the Company's Board of Directors to all holders of securities, to whom it is addressed, under the procedure specified for forwarding a notice of a General Meeting of Shareholders;
- after the Company has received the voluntary or mandatory proposal, resolutions on the following issues shall be passed only by the General Meeting of the Company's Shareholders:
  - increase in the Authorized Capital of the Company by placement of additional shares within the quantity and categories (types) of the authorized shares;
  - placement by the Company of securities that may be converted into shares, *inter alia*, options of the Company;
  - approval of transactions or more than one associated transactions relating to acquisition, disposal or possible disposal by the Company, directly or indirectly, of property with the value exceeding 10 and more per cent of the book value of the Company's assets to be determined based on the data of its accounting statements as of the recent reporting date, unless such transactions are made in the normal course of the Company's business or have been closed before the receipt of the voluntary or mandatory proposal by the Company, and in case the Company has received a voluntary or mandatory proposal to acquire openly negotiable securities, till the time of disclosing any information on forwarding the relevant proposal to the Company;
  - approval of related party transactions;
  - acquisition by the Company of placed shares in cases specified by the Law;

- increase in remuneration to persons holding offices in management bodies of the Company; specifying conditions of terminating their powers, *inter alia*, fixing or increasing compensations payable to such persons in case of termination of their powers.

7.6. In addition, the persons eligible for participation in the General Meeting of the Company's Shareholders, in the course of preparing a General Meeting of Shareholders with the agenda including an issue of the Company's reorganization, shall be furnished with the following:

- substantiation of conditions and procedure for reorganization of the Company that are contained in a resolution on demerger, spin-off or transformation or in an agreement of merger or take-over approved (passed) by a competent body of the Company;
- annual reports and annual accounting statements of all organizations participating in the reorganization, for three full financial years preceding the date of the General Meeting of Shareholders, or for every full financial year from the time of the organization's incorporation, if the organization has been existing for less than three years;
- quarterly accounting statements of all organizations participating in the reorganization, for the recent full quarter preceding the date of the General Meeting of Shareholders.

## **VIII. DISCLOSURE OF INFORMATION ON THE COMPANY**

8.1. The aim of disclosing any information on the Company shall be bringing the accessible, regular and proper information to notice of all persons interested to receive the same, in the amount required for making a better decision on participation in the Company or on any other actions that may affect the financial and economic activity of the Company.

8.2. The major principles of disclosing any information on the Company shall be the regular and prompt nature of its provision, accessibility of such information to all Shareholders and other persons concerned, truth and completeness of its content, adherence to reasonable balance between openness of the Company and safeguarding its commercial interests, its neutrality, that is, exclusion of preferential satisfaction of interests inherent in some groups of information recipients as compared to others.

8.3. The Company shall not elude disclosure of negative information on itself, which is material for the Shareholders and/or potential investors.

8.4. Information on the Company shall be disclosed under an internal document to be approved by the Company's Board of Directors and containing a list of information that is needed to be disclosed, in the Company's opinion (in addition to the information specified by the laws), and also its disclosure rules.

8.5. The Company's Internet website shall have the text of the Articles of Association and amendments thereto, Regulations on management bodies and bodies overseeing the financial and economic activity of the Company, quarterly reports, prospectus of securities, auditor's opinions and information on of the Company's auditor, information on material facts, and also information with regard to holding General Meetings of Shareholders and on the crucial resolutions passed by the Board of Directors, information on members of the Board of Directors, members of the Management Board, the President of the Company, dependent companies and subsidiaries of the Company, the Company's Registrar, on independent directors in the Company's Board of Directors and other information.

8.6. With a view to disclose information on financial standing of the Company, the Company shall annually produce an Annual Report to the Shareholders and investors.

8.7. An Annual Report should contain the necessary information that allows evaluation by the Shareholders and investors of results of the Company's operations during a year. The

Annual Report shall contain information on the paramount aspects of the Company's activity, including:

- the Company's status in the industry;
- priorities in the Company's activity;
- report on payment of the declared (accrued) dividends on the Company's shares;
- key risk factors associated with the Company's business;
- a list of transactions closed by the Company in the reporting year and recognized, under the Law, major transactions, and that of other transactions covered, in accordance with Articles of Association of the Company, by the procedure for approval of major transactions, stating in regard to every transaction its essential conditions and the Company's management body, which has decided to approve the same;
- a list of transactions closed by the Company in the reporting year and recognized, under the Law, related party transactions, stating in regard to every transaction a related party (parties) thereto, essential conditions thereof and the Company's management body, which has decided to approve the same;
- membership of the Company's Board of Directors / Management Board, including information on changes in the membership occurred in the reporting year, and information on members of the Company's Board of Directors / Management Board, *inter alia*, their background profiles and shareholdings in the Company within the reporting year;
- information on the President of the Company, including his/her background profile and shareholding in the Company within the reporting year;
- criteria for determination and amount of remuneration (compensation of expenses) payable to the President of the Company, every member of the Management Board of the Company and every member of the Company's Board of Directors or total amount of remuneration (compensation of expenses) to all such persons paid or payable following the results for the reporting year;
- information on compliance of the Company with the Code of Corporate Conduct.

8.8. With a view to maintain the reasonable balance between openness of the Company and seeking not to prejudice its interests, the Company's Board of Directors shall approve a document specifying a list of information being a commercial secret (confidential information), criteria for referring any information to confidential, and also the procedure for access thereto.

8.9. The Company shall assume an obligation to ensure regular monitoring of compliance by the members of the Company's Board of Directors, executive bodies, and other persons, who have obtained access to insider information, with the rules of the current laws and special requirements specified in the internal documents of the Company, in order to prevent any conflict of interests and to restrict misapplication while using the insider information.

## **IX. CONTROL OVER FINANCIAL AND ECONOMIC ACTIVITY OF THE COMPANY**

9.1. The current Company's system of overseeing its financial and economic activity shall be aimed at ensuring confidence of investors to the Company and its management bodies. The main purpose of such control shall be protection of Shareholders' capital investments and the Company's assets.

9.2. Control over financial and economic activity of the Company shall be effected by the Company's Board of Directors, Audit Committee, the Auditing Commission of the Company, Supervision and Auditing Service that perform internal control functions. Inspection and confirmation of whether the annual financial (accounting) statements of the Company are correct shall be performed by an independent auditor.

9.3. The internal control procedure shall be developed by the Audit Committee of the Board of Directors together with the Supervision and Auditing Service of the Company.

9.4. Supervision and Auditing Service shall be a structural unit, independent of the Company's executive bodies, whose activity is supervised directly by the Company's Board of Directors. Functions of the said structural unit, its operating procedure, procedure for appointment of employees, requirements to them shall be determined by an internal document to be approved by the Company's Board of Directors.

9.5. Approval of the internal document that specifies the procedure for internal control over financial and economic activity of the Company shall refer to the competence of the Company's Board of Directors.

9.6. Application of the internal control procedure shall be the responsibility of the Company's executive bodies.

9.7. The Audit Committee of the Company's Board of Directors shall focus on three key aspects: financial statements, risk management and audit. Its powers, membership, operating procedure and other issues shall be governed by the Regulations on Audit Committee of the Company's Board of Directors.

9.8. The Auditing Commission of the Company shall, in accordance with the Articles of Association of the Company and the Regulations on the Auditing Commission of the Company, perform annual and unscheduled inspections of financial and economic activity of the Company and forward its resulting findings to the Company's Board of Directors and the President of the Company.

9.9. A professional auditor, not associated with the Company, or its Shareholders through property interests shall be engaged on an annual basis in auditing and generation of objective and complete information on the Company's activity.

9.10. The Auditor of the Company shall be approved by the General Meeting of Shareholders on recommendation of the Company's Board of Directors with the basis on the opinion issued by the Audit Committee of the Company's Board of Directors.

9.11. The Auditor of the Company shall audit the financial and economic activity of the Company in accordance with the laws of the Russian Federation under an agreement to be entered into with it; the amount of fees payable for the Auditor's services shall be defined by the Company's Board of Directors.

## **X. DIVIDENDS OF THE COMPANY**

10.1. The Company shall acknowledge that it is very important that the Shareholders receive dividends as a form of income gained from investments into acquisition of shares and it shall seek to establish a transparent and easy-to-understand by the Shareholders mechanism of dividend determination and payment.

10.2. Information on the Company's strategy with regard to determination of the dividend amounts and their payment shall be disclosed in the Regulations on Dividend Policy.

10.3. The Company shall inform the Shareholders and other interested persons of its dividend policy and amendments thereto by placement in the Company's Internet website.

10.4. The dividends declared by the Company shall be paid in specie, save cases when the General Meeting of Shareholders passes a resolution to pay dividends in kind.

10.5. The dividend payment procedure should in the best way contribute to the exercise of Shareholders' rights to receive the same.

10.6. Dividend shall be paid within the time limits stipulated by the Articles of Association of the Company or resolutions passed by the General Meeting of Shareholders. The period of dividend payment should not exceed 60 days from the date of the resolution to pay the same. If the Articles of Association or the resolution of the General Meeting of Shareholders to pay dividends do not fix the period of their payment, it shall be deemed equal to 60 days from the date of the resolution to pay them.

10.7. The dividend policy of the Company shall stipulate measures that exclude incomplete or untimely payment of the declared dividends.

## **XI. RESOLUTION OF CORPORATE CONFLICTS**

11.1. Prevention and resolution of conflicts between the bodies of the Company and its Shareholders, and also between the Shareholders, if such conflict involves interests of the Company (corporate conflicts) shall enable observance and protection of Shareholders' rights and shall protect the property interests and business reputation of the Company.

11.2. The Company shall seek to prevent in due time and ensure revealing of corporate conflicts at the earliest stages of their emergence, and also to reasonably resolve any corporate conflicts and to ensure considerate attitude of the Company's officials and employees to them.

11.3. The Company's position in a corporate conflict shall be based on provisions of the laws of the Russian Federation.

11.4. The Company's bodies shall consider and resolve corporate conflicts in accordance with their competence.

11.5. One of the objectives of the Corporate Governance Committee of the Company's Board of Directors shall be assistance in avoidance of corporate conflicts and, if necessary, participation in their settlement.

11.6. The Corporate Secretary of the Company should contribute to revealing any corporate conflicts, collection and analysis of initial information and should initiate performance of a procedure for their settlement.

11.7. If a corporate conflict occurs between the Company's Shareholders and such conflict may affect interests of the Company or any other Shareholders of the Company, the body of the Company, responsible for consideration of such dispute, shall decide on whether such dispute affects the interests of the Company or any other Shareholders of the Company and whether its participation will contribute to the corporate conflict settlement.

## **XII. FINAL PROVISIONS**

12.1. This Code shall become effective from the time of its approval by the Company's Board of Directors.

12.2. This Code may be amended or complemented with account of new corporate conduct standards in the Russian and international practice, interests of the Shareholders, the Company, investors and other persons concerned.

## **XIII. APPLICATION OF THE CODE**

13.1. In order to provide for execution of this Code, the Company shall publish the Code as a separate document placed in the Internet website of the Company.

13.2. It is proposed to the Shareholders, members of the Company's Board of Directors, executive bodies of the Company, every employee of the Company and other interested persons to notify the Corporate Secretary of the Company of all cases of this Code violations coming to their knowledge.

13.3. Detailed description of the corporate governance system shall be provided in relevant internal documents regulating the Company's operations and approved by the appropriate management bodies within the limits of their competence.