


APPROVED BY:
the decision of the Board of Directors
of the Open Joint stock company
Concern "Kalina".
Minutes of the Meeting of
the Board of Directors №12
dated November 3, 2004

Chairman of the Board of Directors
(Johan Vreeman)



Corporate Governance Code
Of the Open Joint Stock Company
Concern "Kalina"

Ekaterinburg

2004

Preamble

The present Corporate Governance Code (further on - Code) of the Open Joint Stock company Concern “Kalina” is developed in accordance with the legislation of the Russian Federation taking into account internationally acknowledged principals of corporate governance such as Principals of corporate governance of OECD(Organization of economical cooperation and development) and recommendations to the Corporate Governance Code developed by the Federal Commission for Securities Market of Russian Federation, and approved by the decision of the Board of Directors Meeting dated November 3, 2004.

The aim of the present Code is to provide all the Shareholders of the Company with the effective way of protecting their rights and interests, to raise the transparency of the Company as well as to confirm the commitment of the Company to the standards of the appropriate corporate governance through:

- strict keeping to all procedures which are to provide realization of rights and protecting interests of the Shareholders;
- effective and conscientious work of the Board of Directors and the Chief Executive Officer acting in favor of the Company and the Shareholders, including the minority Shareholders, and creating conditions for stable increase of the shares’ value; and
- appropriate furnishing of information and transparency as well as through effective system of managing risks and inner inspection.

Accepting the present Code and strictly keeping to its statements, statements of the Charter and other internal documents of the Company, the Company confirms its intention to contribute to developing and perfecting the experience of appropriate corporate governance.

The company takes an obligation to keep to the principals of corporate governance specified in the present Code and is to provide the estimation and the observance of its spirit and its statements by all the employees of the Company, its subsidiaries and affiliates.

Information about the Company:

The Open Joint Stock Company Concern “Kalina” is one of the largest Russian manufacturers of perfumery, cosmetics and household chemical goods.

The mission of the Company is to create Leading brands on the markets of perfumery, cosmetics and household chemical goods. The values of the Company are leadership, honesty, effectiveness.

The Company sees the markets of Russia and CIS as the key ones for its operation. The Shareholders of the Company are Russian as well as foreign legal entities and individuals. The shares of the Company are being listed on the largest Russian stock exchanges. The Company has subsidiaries in Russia, Ukraine and in the Netherlands.

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Part I Keeping to principals of corporate governance.

Term and principals

The Company understands corporate governance as a system of mechanisms of managing and controlling Company's operation, regulating relationships between Shareholders, Board of Directors, executive bodies of the Company and other interested persons.

It sees corporate governance as a means for raising effectiveness of Company's operation providing easier access and lowering the value of capital, strengthening Company's regulation and finally, increasing wealth of Company's Shareholders.

Corporate governance of the Company is based on the following principals:

- **Justice.** The Company commits itself to keeping and protecting the rights of Shareholders, providing equal attitude to all Shareholders including minority (and foreign) Shareholders. The Board of Directors gives all the Shareholders an opportunity to have effective protection in case of violation of their rights.
- **Accountability.** The Code provides accountability of the Board of Directors to its Shareholders and serves as guideline to the Board of Directors in developing strategy managing and controlling the operation of the executive power of the Company.
- **Responsibility.** The Company acknowledges the rights of other interested persons according to the requirements of legislation and other normative regulation.
- **Transparency.** The Company provides furnishing well timed reliable information about all material events relevant to Company's operation including its financial state, operational results, property structure and management of the Company as well as free access to this information to all interested persons.

The Company, its officials and all employees in their work are guided by the norms of the existing legislation as well as ethic norms acknowledged in business society in accordance with the statements of the Code.

The internal documents of the Company.

The statements of the Code are a matter of principal.

Some structures, processes and experiences of corporate governance are regulated by the Charter and other internal documents of the Company including the following:

- ✓ By-law on the General Meeting of Shareholders;

- ✓ By-law on the Board of Directors;
- ✓ By-law on Inspection Commission;
- ✓ By-law on Informational policy;
- ✓ By-law on Dividend policy; and
- ✓ By-law on the Auditing Committee of the Board of Directors.

The above-mentioned documents of the Company are developed in accordance with the statements of the existing legislation as well as with the main statements of the Code of the Federal Commission for Securities Market and internationally acknowledged principals of corporate governance. The Charter and other internal documents of the Company are published on the web site of the Company.

General management structure.

The system of corporate governance of the Company includes the following organs:

- **The General Meeting of Shareholders**, i.e. the supreme organ of Company's management which provides participating of shareholders in managing and profit of the Company.
- **The Board of Directors**, which is in charge of developing strategy of the Company and managing, controlling the executive power.
- **The Chief Executive Officer** responsible for the current management of company's operation, execution of strategy formulated by the Board of Directors.
- **Inspection Commission**, which controls financial-economic operation of the Company and is accountable only to the General Meeting of Shareholders.
- **Department of financial controlling**, which carries out functions of the inner inspection of the Board of Directors and is under double command- of the Board of Directors and the Chief Executive Officer.

Part I. Rights of Shareholders.

1. All Shareholders have the right to participate in managing of the Company and its profit. The statements of the Charter and internal documents of the Company in accordance with the legislation of the Russian Federation regulate all the rights of Shareholders.

The Board of Directors, executives and all the employees of the Company are to provide realization of Shareholders' rights based on equal attitude to Shareholders possessing the number of the same type (category) and keeping legal interests of Shareholders. The Company pays much attention to protecting Shareholders' rights for Company's shares owned by them.

The list of Company's Shareholders is kept by an independent registrar. Choice and destination of an independent registrar having all necessary technical means and irreproachable reputation allows the Company to provide reliable and effective registration of ownership rights for shares and other securities of the Company.

2. An integral right of Company's Shareholders is an opportunity to deal with their shares freely according to the existing legislation including alienation and negotiation of shares.

The Company does its best to create favorable conditions for realizing this right of its Shareholders. The shares of the Company are listed on the largest stock exchanges of Russia. The Company will be constantly acting and performing so that to raise shares' liquidity including bringing out Company's securities on the world stock exchanges.

3. Company's Shareholders have the right to get full and true information about the Company regularly and well-timed.

Intending to provide Shareholders with full information the Company strictly meets all the requirements of the existing legislation in the sphere of furnishing information and also additionally informs investors and Shareholders about its operation, its financial economic results and other material events in Company's operation.

All information about the Company is by all means furnished on Company's Internet web site.

The Company provides constant availability of contact information and access of specialists in investor relations for communication with Shareholders and investors.

4. Each Shareholder has the right to participate in managing the Company. The Shareholders may realize their right, first of all, formulating the Agenda of General Meeting of Shareholders as well as participating and taking decisions for questions of the Agenda on the General Meeting of Shareholders including offers on candidatures to the Board of Directors and executives of the Company.

The Company has the By-law on General Meetings of Shareholders containing the detailed description of preparing, holding and taking decisions by General meetings.

Fare and effective way of making offers to questions of the Agenda of General Meeting of Shareholders is accepted in the Company including offers about candidatures to the Board of Directors. The Agenda cannot be changed after it has been approved by the General Meeting of Shareholders.

The Company undertakes all necessary measures to provide participating of Shareholders in General Meeting and their active voting for questions of the Agenda. The Company sends each Shareholder a notification about General Meeting of Shareholders no less than 30 days before its actual date in case the legislation does not stipulate a longer period.

The place of holding the General Meeting of Shareholders is chosen taken into account its accessibility to major Shareholders. The registration order is convenient to all participants and provides quick and easy access to the place of the meeting.

Company's Shareholders have an opportunity to vote personally or without personal presence and the votes in both cases have the same effect.

Company's Shareholders timely get reliable and full information necessary for taking reasonable decisions on questions included in the Agenda of the General Meeting of Shareholders.

The Company provides presence of Shareholders-members of the Board of Directors, executives, Inspection Commission and outside auditor on the Meeting so that they can answer the questions of Shareholders. The Chairman of the Meeting provides quick and effective work of the General Meeting of Shareholders.

5. Shareholders have the right for getting their profit share of the Company.

The Company guarantees well-timed and full payment of the announced dividends in order to provide realization of the stated right of Shareholders.

The Company determines the understandable procedure of fixing the sum of dividends and way of paying them out to Shareholders. Every 2-3 years the Board

of Directors approves the internal document describing such procedure. (By-law on Dividend Policy)

6. Besides realizing their rights Company's Shareholders take responsibility for the long-term stability and increase of Company's wealth to each other, to the Company and other interested persons.

Shareholders should take into account all advantages and disadvantages, which realization of their rights results in.

Shareholders should neither act intending to do any harm to other Shareholders of the Company nor abuse their rights in any other way.

Part II. Appropriate experience of the work of Board of Directors and Executive Power.

Board of directors

The Board of Directors acts in absolute accordance with the existing legislation, the Charter, internal documents of the Company including the By-law on the Board of Directors and the Code, keeping in its work to the best practice of corporate governance.

The Board of Directors represents Company's interests, provides keeping its rights and is responsible for its wealth and successful development.

1. The Board of Directors sees its aim as a conscientious, competent and effective execution of its functions.

The Board of Directors plays the major role in defining and realizing development strategy of the Company and approves annual budget.

The Board of Directors develops the system of controlling the operation of the Company as a whole and executive power - in particular providing their effective functioning.

The Board of Directors provides realization and protection of legal rights and interests of Shareholders as well as contributes to settling down corporate conflicts.

The Board of Directors provides furnishing and spreading information about Company's operation.

2. Membership of the Board of Directors should provide its effective work and represent different groups of Shareholders.

Quantitative membership of Board of Directors is defined by the Charter of the Company. Each Member of the Board of Directors has necessary experience, knowledge, qualification as well as irreproachable reputation necessary for executing duties of a Member of the Board of Directors and organizing effective work of the Board in favor of the Company and its Shareholders.

In order to represent interests of different groups of Shareholders including minority ones the Board of Directors should have Independent Directors.

According to Company's definition an Independent Director should conform to the following criteria:

- 1) To be an official or an employee of the Company neither for the last 3 years nor at present.
- 2) To be neither Shareholder owing more than 2% of voting shares of the Company nor an official (employee of the shareholder owing more than 2% of voting shares of the Company).
- 3) Not to be an official of other companies where any of the officials of the company is a member of the committee on personnel and remuneration of the Board of Directors.
- 4) Not to be a close relative (the Code defines close relatives as spouse, parents, children, brothers and sisters) to any official or member of the Board of Directors of the Company.
- 5) Not to be a party in commitments to the Company according to which he may acquire property (get cash) of value more than 10 % of the cumulative annual income of this person besides getting remuneration for participating in the Board of Directors.
- 6) Not to be an official of Company's counterparts the cumulative volume of transactions between this counterpart and the Company accounts for more than 10% of balance value of Company's assets.
- 7) Not to be a representative of the state.

In case an Independent Director in the Board of Directors under any circumstances does not meet requirements to Independent Directors he is to inform the Board of Directors about it. The Board of Directors is to furnish this information to Company's Shareholders and other interested persons.

The Company admits that a Member of Board of Directors having executed his functions for more than 7 years could not be considered independent.

3. Members of the Board of Directors should execute commitments laid on them in conscientious and reasonable way in favor of the Company and all its Shareholders on the basis of all necessary information.

Members of the Board of Directors neither divulge nor use confidential information about the Company for personal purposes.

Members of the Board of Directors should give enough time to effective executing their commitments.

Members of the Board of Directors take an obligation to keep themselves from actions which may lead to conflict between interests of the Director and the Company. In case this conflict occurs the Member of the Board of Directors takes an obligation to furnish information about the conflict of interests to other members of the Board of Directors as well as to abstain from voting for such issues.

2. Organization of work of the Board of Directors including the way of calling and holding the Meeting of the Board is regulated by The By-law on the Board of Directors.

Periodicity of meetings of the Board of Directors is stipulated by the Charter of the Company.

Meeting of the Board of Directors can be held internally as well as externally. An external meeting can be held only in case of consent of all its members.

Some questions decisions for which are taken by the Board of Directors can be considered only on the internal meeting of the Board of Directors. These questions are:

- approval of the priority directions for the operation and annual budget of the Company;
- calling the Annual General Meeting of Shareholders as well as calling or refusal to call an Extraordinary General Meeting of Shareholders and taking decisions necessary for calling and holding the General Meeting of Shareholders;
- putting to the consideration of the General Meeting of Shareholders offers of reorganization and or elimination of the Company;
- increase in the authorized capital through distributing additional shares within the limits of quantity and categories (types) of the announced shares.

Members of the Board of Directors have access to all information necessary to conscientious execution of their functions and taking reasonable decisions. The Secretary of the Board of Directors provides all the Directors with precise and exhaustive information together with the notification about carrying out the Board of Directors but no less than 7 days before the actual date of the Meeting.

In order to organize its work effectively the Board of Directors can form committees. The Board of Directors by all means forms the Auditing Committee.

Performance of all committees is regulated by internal documents containing information about membership, competence, operational order as well as about rights and obligations of committees' members. The Chairman of the Board of

Directors appoint chairmen of committees from the members of the Board of Directors.

Each committee gives its preliminary opinions for major questions in the sphere of competence of the Board of Directors. After each meeting committee reports about the Meeting of the Board of Directors.

3. The Company keeps transparent policy of remuneration of the members of the Board of Directors.

Remuneration of the members of the Board of Directors depends on personal participation of each member in the work of the Board and on long-term development of the Company, however, its mechanism does not infringe the independence of Directors. The Board of Directors periodically re-considers the size of remuneration paid to Directors. All the Members of the Board of Directors sign the contract with the Company. The Company publicly furnishes information about the remuneration of each member of the Board of Directors.

The Company does not grant personal loans or credits to Members of the Board of Directors.

4. The members of the Board of Directors bear responsibility for improper execution of their commitments in accordance with the existing legislation of the Russian Federation. The responsibility of the members of the Board of Directors of the Company may be insured according to the legislation of the Russian Federation and generally accepted international experience.

The Chief Executive Officer

The Chief Executive Officer manages the current operation of the Company targeted at fulfilling aims and tasks of the Company and executing the strategy approved by the Shareholders and the Board of Directors in compliance with the statements of the Charter and internal documents of the Company.

The question of electing and pre-scheduled terminating of commitments of the Chief Executive Officer is provided by the terms of reference of the General Meeting of Shareholders. The Chief Executive Officer is elected for the period of three years.

Rights and duties of the Chief Executive Officer, terms of executing his functions in questions under his competence in accordance with the Charter of the Company as well as his responsibility are stipulated in the contract concluded by him and the Company. The contract is signed by the Chairman of the Board of Directors.

The Chief Executive Officer acts conscientiously and reasonably in favor of the Company and its shareholders.

The Chief Executive Officer is engaged to refrain from actions which will lead or may lead to conflict between his interests and interests of the Company. In case such conflict occurs the Chief Executive officer is obliged to furnish information about the conflict o interests to the Board of Directors.

Part III. Furnishing information and transparency.

Well-timed and reliable furnishing of information is one of the major principals of Corporate Governance of the Company. This way the Company provides free and easy access to information about all the material events including the information about financial state, operational results, property and management structure. On the other hand the company intends to provide reasonable balance between the transparency and protection of commercial interests of the Company. The By-law on Informational Policy of the Company regulating questions of furnishing information prepared and approved by the Board of Directors is published on Internet web site of the Company.

According to the requirements of the Russian legislation and By-law on Informational Policy of the Company, the Company furnishes information (documents) for inquiries of Shareholders and in accordance with the legislation norms. The Company publishes detailed annual report including the paragraph about corporate governance and prepares other material documents such as issue outlines, quarterly reports, and information about material events. The Company furnishes information about experience of corporate governance, publishes calendar of corporate events and other material information on its Internet site timely.

The Company undertakes measures to protecting confidential information. Any information got by the employees of the Company and its management can not be used by them for their personal purposes.

The company keeps books and prepares the full set of financial statements in compliance with the Russian Accounting standards and financial accountancy. In addition, the Company prepares US GAAP statements and publishes it both in the annual report and on Internet web site of the Company.

Financial statements are accompanied by the detailed comments which allow the reader of these statements to interpret the data about financial results correctly. Financial information is supplied by the analysis and comments of management as well as the opinion of outside auditor and inspection commission.

The Auditing Committee focuses its attention on the three key aspects: financial accounts, risk management, internal and external audit. The head of this Committee is an Independent Director and it consists of the non-executive directors each of whom has sufficient knowledge of financial questions. Its power, membership, operational order and other questions are regulated by the By-law on the Auditing Committee of the Company.

An external auditor audits financial statements of the company. The outside auditor is an acknowledged independent audit firm. Independence is understood as independence of the auditor from the Company, its management and large Shareholders. Information about auditor's remuneration is furnished to Shareholders. The outside auditor is chosen by General Meeting of Shareholders on the basis of open tender according to recommendations of the Board of Directors.

The Company provides public furnishing of information about the actual owners of more than 5% of voting shares of the Company. In case of joining up of group of companies corporate ownership rights are legibly stated in the information furnished by the Company.