

**CORPORATE GOVERNANCE CODE
OF “POWER MACHINES – ZTL, LMZ, ELEKTROSILA, ENERGOMACHEXPORT”
OPEN JOINT STOCK COMPANY**

Moscow, 2004

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1. INTRODUCTION

“Power Machines – Ztl, Lmz, Elektrosila, Energomachexport” Open Joint Stock Company (“the Company”) is one of the largest Russian power-plant engineering companies. Shareholders of the Company are Russian and foreign individuals and legal entities.

The purpose for which the Corporate Governance Code (“this Code”) is adopted by the Company shall be to form corporate governance principles and rules and reduce them to practice. The corporate governance principles and rules shall facilitate successful development of the Company, i.e. creation of long-term prospects for its development, growth of its capitalization, observation of rights and lawful interests of its shareholders, formation of a positive image of the Company for shareholders, employees and customers of the Company and for proposed investors, professional participants of the securities market and other persons concerned.

This Code shall be a set of voluntarily assumed obligations based on well-balanced interests of the Company, its shareholders and other persons concerned.

The principles and rules of this Code shall establish a level of functioning of the Company’s management and control bodies and observation of business cultural and ethic norms which level would be higher than those provided for by the existing laws of the Russian Federation.

2. PRINCIPLES OF CORPORATE GOVERNANCE

Corporate management means a system of principles, norms and rules under which management and control mechanisms are function in relations between shareholders of the Company, members of the Board of Directors, the Company’s executive bodies and other persons concerned such as creditors, partners, customers, employees, etc.

The Company undertakes an obligation to develop corporate relations in accordance with principles which would:

- give a real opportunity to shareholders of the Company for exercise of their rights related to their participation in the Company;
- ensure an equal attitude to holders of shares of the same type/category including minor and foreign shareholders;
- ensure the strategic management of the Company’s activities by the Board of Directors, efficient control over the executive bodies by the Company and accountability of the Board of Directors to shareholders of the Company;
- give an opportunity to the Company’s executive bodies to manage the Company’s current activities reasonably, faithfully and in the Company’s interests only;
- ensure accountability of the executive bodies to the Board of Directors and shareholders of the Company;
- ensure the prompt disclosure of full and true information on the Company in order to give to shareholders and investors of the Company an opportunity to make reasonable decisions;

- ensure the observation of lawful rights of employees of the Company and the development of partners' relations between the Company and its employees in resolution of social problems and regulation of working conditions;
- ensure the development of active cooperation with persons concerned in order to increase the Company's assets or a value of shares or other securities of the Company;
- ensure the efficient control over the Company's financial and business activities for the purpose of protection of rights and lawful interests of shareholders and investors of the Company.

3. RIGHTS OF SHAREHOLDERS

The observation of the complex of rights belonging to shareholders of the Company shall be ensured chiefly by the Board of Directors, the Management Board and the General Director of the Company.

The Company shall ensure the rights of each shareholder to participate in management of the Company and to take decisions on the most important matters related to the Company's activities.

The Company shall, jointly with an independent registrar, facilitate the protection of ownership to shares in the Company by creation of reliable and efficient methods for registration of such ownership.

The Company shall pursue a policy aimed at the prompt disclosure of information on the Company to its shareholders in a volume necessary for making of deliberate decisions on disposal of their shares.

The Company shall observe the rights of shareholders to receive dividends and make every effort to ensure that the procedure for payment of dividends would mostly facilitate the exercise of such rights.

In return, shareholders of the Company shall not abuse their rights or act with intentions to do harm to other shareholders or the Company.

4. GENERAL MEETING OF SHAREHOLDERS

The procedure for preparation and holding of the general meeting of shareholders of the Company shall be established by the By-laws of the Company and the Regulations on the General Meeting of Shareholders of the Company.

The By-laws and the Regulations on the General Meeting of Shareholders of the Company shall establish a procedure which would ensure the equal attitude to all shareholders, give to shareholders an opportunity for proper preparation for participation in the general meeting and ensure the disclosure to shareholders the most full information for making reasonable and deliberate decisions at the general meeting.

The notice of the general meeting shall be given to shareholders at the latest 30 days before the date of the general meeting.

The Company shall meet the requirements of the Russian laws related to a content of notices of general meetings of shareholders and specify in each notice a time of commencement of the registration of persons participating in the general meeting.

The notice of the general meeting of shareholders shall be sent by registered mail to each person named in the list of persons entitled to participate in the general meeting or personally delivered to each such person against receipt. The Company may also publish a notice of the general meeting in *Rossiyskaya gazeta* or *Vremya novostey* Newspaper.

In addition, the Company shall place the relevant information related to convocation of the general meeting of shareholders at the Company's internet site at www.power-m.ru.

The Company shall give to holders of more than one per cent of the voting shares in the Company an opportunity to acquaint themselves with a list of persons entitled to participate in the general meeting of shareholders within the period commencing on the date of notice of the general meeting and expiring on the date of the general meeting or, in case of absentee ballot, on the last date of acceptance of ballot papers.

Holders of one or more per cent of the voting shares in the Company may acquaint themselves with such list at an address or addresses specified in the notice of the general meeting of shareholders.

Pursuant to the Information Policy Regulations of the Company, for the purpose of preparation to the general meeting of shareholders the Company shall provide shareholders with all information provided for by the Russian laws and, if necessary, with additional information reflecting the state of things in more details to give shareholders an opportunity to make competent and reasonable decisions on the matters put on the agenda.

To give shareholders an opportunity to obtain answers to any questions interested to them, the Company shall make every effort to ensure the presence of shareholders, members of the Board of Directors, the General Director, members of the Management Board and the Auditing Commission and a representative of auditors of the Company at each annual general meeting of shareholders.

The procedure for registration of participants of the general meeting of shareholders shall be established by the Regulations on the General Meeting of Shareholders so that the registration does not preclude shareholders from participation in the general meeting.

To avoid ambiguity about a result of the vote, the Company shall make every effort to evaluate and state the result thereof before the closure of the general meeting of shareholders which is held in the form of joint presence. The result of any vote shall be evaluated by an independent registrar performing functions of the board of tellers at the general meeting of shareholders. If no result of the vote is stated at the general meeting of shareholders which is held in the form of joint presence or if the general meeting is held by absentee ballot, the Company shall, at the latest 10 days from the date of minutes, announce the result of the vote by a vote result report to all persons included in the list of persons entitled to participate in the general meeting of shareholders, under the procedure established by the By-laws of the Company.

5. BOARD OF DIRECTORS

The Board of Directors shall generally manage the Company's activities provided that the Board of Directors shall not decide on any matters falling within the scope of authority of the general meeting of shareholders.

The main task of the Board of Directors shall be to control efficiency of management of the Company's activities for the purpose of an increase in capitalization, stable growth of profitability and net assets in the long view, protection of rights of shareholders of the Company and provision of efficiency of their investments.

The purposes, number, rights and duties of members of the Board of Directors and the procedure for activities of the Board of Directors shall be determined by the By-laws and the Regulations on the Board of Directors of the Company.

The scope of authority of the Board of Directors shall be determined by the By-laws of the Company.

Being an important element of the corporate management structure of the Company, the Board of Directors shall perform the following principal functions:

- determine priority lines of the Company's activities, determine concepts and strategies of development of the Company and approve plans and budgets of the Company;
- ensure the efficient control over the Company's financial and business activities;
- ensure the efficient activity of the Company's executive bodies;
- ensure the exercise and protection of rights of shareholders of the Company and facilitate resolution of corporate conflicts.

The Board of Directors shall be accountable to the general meeting of shareholders of the Company.

The full and true information on candidates for membership in the Board of Directors shall be rendered to shareholders of the Company in the course of preparation for the general meeting provided that the matter related to elections of members of the Board of Directors shall be included in the agenda of such meeting.

The Company shall attach a great importance to membership of independent directors in the Board of Directors since that allows the Board of Directors to form an objective opinion on the matters discussed.

The independent director means any member of the Board of Directors who is not and, within a year preceding the date of decision, was not:

- a person performing functions of the Company's sole executive body, a manager of the Company, a member of the Management Board, an employee of the Company or a person holding office in a management body of any managing organization;

- an officer of any other company in which any of the officers of the Company is a member of the staff or remuneration committee of directors;
- a party to an arrangement with the Company under which he may receive moneys or acquire any property amounting to 10 or more per cent of the aggregate income of such person other than remuneration for participation in activities of the Board of Directors of the Company;
- a large-scale contractor of the Company, i.e. a contractor with whom the Company annually enters into transactions with an aggregate volume of 10 or more per cent of the balance sheet value of the Company's assets;
- a representative of any state;
- a person whose spouse, parents, children, full or other brothers or sisters, adopters or adoptees are persons holding offices in such management bodies of the Company, managing organization of the Company or manager of the Company;
- an affiliated person of the Company other than a member of the Board of Directors of the Company.

No independent director shall be deemed to be independent upon expiration of 7 years' period within which he has performed functions of a member of the Board of Directors.

The principal criterion of an independent director shall be director's ability to form independent opinions, i.e. the absence of any circumstances which may influence on his position.

The total number of members of the Board of Directors shall include at least 3 independent directors.

For the purpose of efficiency of decisions of the Board of Directors, any meeting of the Board of Directors shall be deemed to be valid if at least one half of the elected members of the Board of Directors are present at the meeting.

All members of the Board of Directors shall faithfully and reasonably perform their duties in the interests of the Company and its shareholders.

All members of the Board of Directors shall avoid any actions which will or may result in a conflict between their interests and interests of the Company. In case of such conflict the member involved shall disclose information thereon to the Board of Directors.

In this connection, no member of the Board of Directors shall beyond the Company receive, whether directly or indirectly, any remuneration for influence on the taking of any decisions of the Board of Directors. No member of the Board of Directors shall, within the term of performance of his duties, participate in formation or activity of any organization or enterprise competing with the Company unless such participation is permitted by decision of the Board of Directors.

Meetings of the Board of Directors shall be held as necessary and at least quarterly.

Meetings of the Board of Directors may be held in the form of joint presence or by absentee ballot.

Any meeting of the Board of Directors shall only be held in the form of joint presence if at the meeting decisions are to be made on any of the following matters:

- determination of priority lines of the Company's activities;
- preliminary approval of an annual report of the Company;
- election of the Chairman of the Board of Directors or termination of his powers before expiration of his term of office;
- formation of executive bodies of the Company;
- submission of the matters set forth below to the general meeting of shareholders for consideration:
 - a proposal to reorganize the Company;
 - an increase of the Authorized Capital by increase of the nominal value of shares;
 - an increase of the Authorized Capital by placement of additional shares by closed subscription or by placement of ordinary shares by public subscription provided that such shares amount to 25% of the previously placed shares; an increase of the Authorized Capital by placement of ordinary shares by public subscription, amounting to 25 or less per cent of the previously placed shares provided that members of the Board of Directors fail to agree upon such placement and decide to submit the matter to the general meeting of shareholders for consideration;
 - split or consolidation of shares.

The procedure for holding of meetings of the Board of Directors shall be established by the Regulations on the Board of Directors of the Company.

The Board of Directors may form the committees named below in order to consider the most important matters falling within the scope of authority of the Board of Directors and to prepare recommendations for the Board of Directors: an audit committee, staff committee and remuneration committee. The procedure for activities of any such committee shall be established by the Company's internal regulations to be approved by the general meeting of shareholders of the Company.

6. EXECUTIVE BODIES

To ensure management of the Company's current activities, the Board of Directors shall elect the Management Board as a collective executive body and the General Director as a sole executive body of the Company.

The Management Board and the General Director shall carry out their activities in accordance with the laws of the Russian Federation, the By-laws of the Company, the Company's internal regulations and employment contract to be concluded by the Company with the General Director and each member of the Management Board.

The scope of authority of the Management Board and the General Director shall be determined by the By-laws of the Company.

Neither the Board of Directors nor shareholders of the Company shall groundlessly interfere in work of the executive bodies or restrict their possibilities to settle operatively any problems of the Company's current activities.

The Management Board shall be elected for one year. The number of members of the Management Board shall be determined by the Board of Directors. Candidates for membership in the Management Board shall be presented by the General Director of the Company.

The approval of terms and conditions of employment contracts with the General Director and each member of the Management Board (including an amount of any remuneration and compensation) and the appointment of a signatory to such contract shall fall within the scope of authority of the Board of Directors.

A member of the Board of Directors holding office of the General Director shall not vote on terms and conditions of the contract to be concluded with him. If any member of the Board of Directors is simultaneously a member of the Management Board, he shall not vote on terms and conditions of the contract to be concluded with him as a member of the Management Board.

The General Director and members of the Management Board shall act reasonably and faithfully in the Company's interests.

The General Director and members of the Management Board shall avoid any actions which will or may result in a conflict between their interests and interests of the Company. In case of such conflict the member involved shall disclose information thereon to the Board of Directors.

To ensure the efficiency of its activities, the Management Board shall hold meetings at least monthly.

7. CORPORATE SECRETARY

The main task of the Corporate Secretary shall be to ensure the observance of procedural requirements by all bodies and officers of the Company provided that such requirements shall guarantee the exercise of rights and lawful interests of shareholders of the Company.

The procedure for election of the Corporate Secretary shall be established by the By-laws of the Company. The functions, rights and duties of the Corporate Secretary shall be determined by the Regulations on the Corporate Secretary to be approved by the general meeting of shareholders of the Company.

The Corporate Secretary shall perform the following functions:

- to ensure the preparation and holding of the general meeting of shareholders of the Company;
- to ensure the disclosure of information on the Company;
- to ensure that the Company properly considers shareholders' applications and statements and settles conflicts related to infringements of shareholders' rights;

- to perform any other functions provided for by the Regulations on the Corporate Secretary.

The Corporate Secretary shall be elected for one calendar year by the Board of Directors. The Corporate Secretary shall act in accordance with the By-laws and internal regulations of the Company and a contract to be concluded by the Company with him. Any contract with the Corporate Secretary shall be signed on behalf of the Company by a person authorized by the Board of Directors on the instructions of the Board of Directors.

8. DISCLOSURE OF INFORMATION

The Company is aware of importance of prompt disclosure of objective and true information to shareholders of the Company and other persons concerned. Such disclosure gives shareholders an opportunity to influence on corporate actions and facilitates attraction of capital and maintenance of confidence in the Company.

The purpose of disclosure of information on the Company shall be to provide all persons concerned with available, regular and true information in a volume necessary for making of deliberate decisions on their participation in the Company or performance of other actions which may affect any financial or business activities of the Company.

The Company shall disclosure such information in accordance with the laws of the Russian Federation and the By-laws of the Company and in compliance with the information disclosure policy aimed at full satisfaction of needs of persons concerned for true information on the Company's activities provided that such policy shall be approved by the Information Policy Regulations of the Company.

The basic principles of the Company's information policy shall be a regularity of disclosure, promptitude, availability, reliability, fullness, equilibrium and neutrality of information, invariability of approach to information, and information security.

The duty to disclose information on the Company's activities shall be imposed on the Corporate Secretary and the Company's executive bodies acting in accordance with the existing Russian laws and the Company's internal regulations. The list of information classified as a commercial secret shall be approved by the General Director.

The Company deems it wise to hold regular meetings with investors and shareholders of the Company, to organize press conferences, publish information on the Company's activities in mass media, brochures and booklets and to disclose information on the Company at the Company's web-site at www.power-m.ru.

At its web-site the Company shall place the following information:

- the By-laws of the Company together with alterations and amendments thereto;
- annual reports;
- internal regulations;
- prospectuses;
- quarterly reports of the issuer of securities;

- lists of affiliated persons of the Company;
- notices of essential facts;
- information which may significantly affect the value of any securities of the issuer.

The Company shall annually present a report containing all information necessary for estimation of results of the Company's activities within a year.

The annual report shall contain information on the most important aspects of the Company's activity including but not limited to:

- Appeal of the General Director
- Position of the Company in the industry
- Priority lines of the Company's activities
- Report of the Board of Directors on results of development of the Company along priority lines of its activities
- Prospects for development of the Company
- Report on payment of declared/calculated dividends on shares in the Company
- Description of basic factors of risks related to the Company's activities
- List of transactions entered into by the Company in a reporting year which are, under the Federal Law on Joint Stock Companies, classified as large-scale transactions and of other transactions which should, under the By-laws of the Company, be approved under the procedure for approval of large-scale transactions provided that the list should specify all essential conditions of each transaction and the Company's management body approving such transaction
- List of transactions entered into by the Company in a reporting year which are, under the Federal Law on Joint Stock Companies, classified as transactions in which certain persons are interested provided that the list should name all persons interested in each transaction and specify the Company's management body approving such transaction
- Members of the Board of Directors and information on changes in membership within a reporting year including their CVs and their ownership to shares in the Company within a reporting year
- Information on the Corporate Secretary and members of the Management Board including their CVs and their ownership to shares in the Company within a reporting year
- Total amount of remuneration which is or has been paid to the General Director, members of the Management Board and members of the Board of Directors according to results of the reporting year

- Structure and members of committees of Directors, a number of meetings of each committee, principal matters considered by each committee within the reporting period
- Practices of corporate management
- Financial statements of the Company together with auditors' report
- Other information on the Companies activities which may, in the opinion of the Board of Directors, be of considerable interest to shareholders of the Company

9. CONTROL OVER FINANCIAL AND BUSINESS ACTIVITIES

The Company's system of control of financial and business activities shall operate so that to ensure investors' confidence in the Company and its management bodies. The principal purpose of such system shall be to protect capital investments of shareholders and assets of the Company.

The control over the Company's financial and business activities shall be exercised by the Board of Directors, the Auditing Commission, auditors of the Company, the Audit Committee of Directors and the Internal Control Department of the Company.

The system of control over the Company's financial and business activities shall be designed so that to ensure the exact implementation of each financial and business plan approved by the Board of Directors.

The determination of basic risks of the Company's activities and the realization of arrangements and procedures for management of such risks shall fall within the scope of authority of the Board of Directors.

The number of members of the Auditing Commission shall be seven. All members of the Auditing Commission shall be elected by the general meeting of shareholders of the Company. Functions and a procedure for activity of the Auditing Commission shall be established by the By-laws of the Company and the Regulations on the Auditing Commission to be approved by the general meeting of shareholders of the Company. The Auditing Commission shall notify the Board of Directors and the General Director about each audit to be conducted by the Auditing Commission.

To audit and verify its annual financial statements, the Company shall annually appoint professional auditors having no property interest in the Company or any of the shareholders of the Company.

Recommendations on an amount of remuneration or compensation to be paid to members of the Auditing Commission of the Company and the determination of a fee for services rendered to the Company by external auditors shall fall within the scope of authority of the Board of Directors.

The Audit Committee of Directors shall be deemed to be an auxiliary body of the Board of Directors which is created to analyze efficiency of internal control and audit bodies of the Company and to analyze financial statements of the Company to make recommendations to the Board of Directors upon decision of such matters. The Committee's decisions shall be of advisable nature.

The Internal Control Department shall be deemed to be a structural division of the Company. The main functions of the Internal Control Department shall be to control production, financial

and business operations of the Company and its affiliates and representative offices, to expose any inefficient use of material, labor and monetary resources, to restrict financial risks and to prevent financial abuses in the Company and its affiliates and representative offices.

10. DIVIDENDS

The Company is aware of importance of payment of dividends as shareholder's yield of shares in the Company and makes every effort to create a transparent and understandable mechanism for calculation or payment of dividends. The procedure for calculation or payment of dividends shall be established by the Dividend Policy Regulations of the Company.

11. SETTLEMENT OF CORPORATE CONFLICTS

The Company acknowledges that its successful activities are only possible when there are conditions for prevention or settlement of corporate conflicts, i.e. conflicts between the Company and its shareholders or between shareholders if such conflicts concerns the Company's interests.

The prevention and settlement of corporate conflicts shall allow the Company to ensure the observation and protection shareholders' rights as well as to protect its property interests and business reputation.

The Company shall make every effort to expose corporate conflicts at the earliest stage of their development and to ensure a careful attitude of officers and employees of the Company towards them. The arrangement of cooperation between the Company and its shareholders for the purpose of revelation or prevention of corporate conflicts shall be a function of the Corporate Secretary whose actions are warranted by the By-laws of the Company, this Code and the Regulations on the Corporate Secretary of the Company.

12. FINAL PROVISIONS

This Code is approved by decision made by the Board of Directors on November 15th, 2004 (Minutes No. 90) and becomes effective as from the date of approval hereof by the general meeting of shareholders of the Company.

Any alteration or amendment hereto shall be preliminary approved by decision of the Board of Directors and become effective as from the date of approval thereof by decision of the general meeting of shareholders of the Company.

The Company will improve this Code, taking into consideration new corporate management standards in a Russian or international practice and interests of the Company, its shareholders and other persons concerned.