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1. Introduction

The goals of this Corporate Governance Code (hereinafter the Code) shall include improving and systemizing the corporate governance of Unified Energy System of Russia (hereinafter the

Company), ensuring higher transparency of the Company governance and confirming the permanent readiness of the Company to follow proper corporate governance standards. In particular:

- the Company shall be governed at a proper level of responsibility and accountability so that the shareholder value is maximized;
- the Board of Directors and executive bodies shall work efficiently, for the benefit of the Company and its shareholders (including minority shareholders) and create an environment for the sustainable growth of shareholder value;
- proper information disclosure, transparency and efficient operation of risk management and internal control systems shall be secured.

By adopting, regularly improving and rigorously adhering to the provisions of this Code, the Charter of the Company and other internal documents the Company confirms its intent to contribute to the development and improvement of proper corporate governance practices.

To further strengthen confidence on the part of shareholders, employees, investors and the public the Company in preparing this Code went beyond the Russian legislative norms and included additional provisions in the Code based on generally accepted Russian and international corporate governance standards.

The Company shall assume the obligations provided for by this Code and undertakes to comply with the norms and principles established herein.

2. Information about the Company

Unified Energy System of Russia (RAO UES of Russia) was established on December 31, 1992 as corporization of facilities involved in power generation, transmission and distribution, which facilities had been formerly controlled by the Ministry of Fuel and Energy of the Russian Federation.

The Company is one of the global major energy holding companies, its shareholders including hundreds of Russian and foreign corporate entities and individuals. The controlling interest in the Company is held by the Russian Federation.

As the parent company of the Holding Company, the Company strives for establishing, on the base of the Holding Company, efficient, profitable, investment-attractive and integrated in world economy business companies to provide the consumers with quality and environmentally-friendly clean energy and other goods or services produced by highly skilled personnel with due regard to the spirit of competition for the consumer and resource saving by using state-of-the-art technologies.

The role of the Company in the economy of the Russian Federation is exceptionally important. The activity of the Company and its subsidiary and dependent companies meets the vital needs of the population and fosters development of all branches of economy of the Russian Federation.

The range and exceptional nature of the activity of the Company is associated with responsibility both to its shareholders and the state, the Company employees, suppliers, consumers and the society in general.

Realizing this responsibility and recognizing the importance of high-level corporate governance for the successful business of the Company and the achievement of mutual understanding among all persons interested in the Company's activity, the Company undertakes to follow in its activity the principles set forth herein and use all reasonable endeavors to ensure that the Company complies with them in its daily operations.

3. Principles and Structure of Corporate Governance in the Company

3.1. Definition and Principles

By corporate governance the Company implies a set of processes ensuring corporate governance and control over its activity and including relations among the shareholders, the Board of Directors and executive bodies of the Company for the benefit of the shareholders. The Company views corporate governance as a means of improving the efficiency of the activity of the Company, strengthening its reputation and reducing costs associated with capital raising by the Company.

This Code in accordance with which corporate governance shall be carried out in the Company shall be based on the Russian law, the Corporate Governance Code recommended for application by FCSM Resolution No. 421/r dated April 4, 2002 (hereinafter the FCSM Code) and internationally accepted corporate governance principles such as the OECD (Organization for Economic Cooperation and Development) Principles of Corporate Governance.

Corporate governance in the Company shall rely on the following principles:

- **Accountability.** The Code shall stipulate the accountability of the Board of Directors of the Company to all shareholders in accordance with the applicable law and shall serve as a guide for the Board of Directors in developing the strategy, managing and exercising control over the activity of the executive bodies of the Company.
- **Fairness.** The Company undertakes to protect the rights of shareholders and ensure equal treatment of all shareholders. The Board of Directors shall provide to all shareholders an opportunity to receive effective protection in case of violation of their rights.
- **Transparency.** The Company shall ensure the timely disclosure of reliable information about all material facts concerning its activities, including its financial standing, social and environmental indicators, performance, ownership structure and governance of the Company, and shall provide free access to such information for all interested parties.
- **Responsibility.** The Company shall recognize the rights of all interested parties provided for by the applicable law and seek to cooperate with such parties for the purposes of its development and ensuring financial sustainability.

3.2. Internal Documents

This Code shall be a set of principles. Specific structures, procedures and practices of corporate governance shall be regulated by the Charter and internal documents of the Company, namely:

- Regulations for the General Meeting;
- Regulations for the Board of Directors Meetings;

- Regulations for the the Management Board;
- Regulations for the Internal Audit Commission.

The above-listed internal documents of the Company are prepared in accordance with the law and with due account for the principal provisions of the Corporate Governance Code recommended for application by the FCSM (FCSM Resolution No. 421/r dated April 4, 2002). All documents listed above are available on the web-site of the Company at <http://www.rao-ees.ru>.

3.3. Overall Structure of Corporate Governance

The system of management bodies of the Company shall include:

- - the General Meeting of Shareholders: a supreme management body of the Company through which shareholders shall exercise their right to participate in managing the Company;
- the Board of Directors: a management body responsible for the development of the Company's strategy, the overall management of its activity and control over the activity of executive bodies. The Board of Directors of the Company may also establish committees under the Board of Directors.
- Committees under the Board of Directors: advisory bodies under the Board of Directors of the Company established for the prior consideration of critical issues falling within the jurisdiction of the Board of Directors.
- the Management Board, the Chairman of the Management Board and Director General: management bodies managing the daily operations of the Company and implementing the strategy defined by the Board of Directors and shareholders of the Company;
- the Internal Audit Commission: a body exercising control over the financial and economic activities of the Company, reporting directly to the General Meeting of Shareholders of the Company.

4. Corporate Governance Practices Implemented by the Company

The Company views the professional Board of Directors as an essential element of effective corporate governance. The Board of Directors shall influence the performance of the Company by carrying out overall strategic direction and exercising control over the operation of executive bodies for the benefit of the Company and its shareholders. The executive bodies of the Company responsible for managing the daily operations of the Company shall also play an important role in the governance process. Effective interaction between these two bodies and a clear distinction between their powers shall be among the key factors for ensuring proper corporate governance practices.

4.1. Board of Directors.

4.1.1. Election, term and termination of powers of members of the Board of Directors.

Members of the Board of Directors shall be elected for a period until the regular Annual Meeting of Shareholders. The Board of Directors of the Company shall be elected by cumulative voting.

The Company believes that imposing limitations on the number of re-elections for members of the Board of Directors shall not meet the interests of the Company or its shareholders. Members of the

Board familiar with the activities of the Company shall play an important role in ensuring proper governance.

The powers of the Board of Directors shall be governed by the Charter of the Company in accordance with the applicable law and the FCSM Code recommendations.

The total number of members of the Board of Directors is defined in the Charter of the Company.

The General Meeting of Shareholders may terminate the powers of the Board of Directors only in its entirety.

4.1.2. Independence. The law prohibits combining the positions of the sole executive body and the Chairman of the Board of Directors. As the Company sees it, the Board of Directors shall be headed by a director which simultaneously shall not act as the sole executive body and/or member of the collegial executive body of the Company, since it shall allow the Board of Directors to perform its functions more effectively.

The composition of the Board of Directors shall ensure the proper fulfillment of duties related to exercising control and defining the strategy and main directions for the development of the Company.

The Board of Directors shall be composed of no more than 25% of executive directors which simultaneously act as employees of the Company.

To ensure the objectivity of adopted decisions and maintain the balance of interests of various groups of shareholders the Company shall seek to have at least 3 (three) independent directors on the Board of Directors. According to the definition given by the Company, an eligible independent director shall mean a director who:

- does not act as an executive or employee of the Company as of the date of election and during 3 years preceding the date of election;
- does not act as an executive of any other business entity in which any executive of the Company is a member of the Personnel and Remuneration Committee under the Board of Directors;
- is not a spouse, parent, child, brother or sister of any of the Company executives;
- is not affiliated to the Company, save as a member of the Board of Directors of the Company;
- is not a party to the commitments with the issuer in accordance with the terms of which the director may acquire any property (receive money) valued at no less than 10 of the cumulative annual income of the aforesaid persons, save as receipt of remuneration for participation in the activity of the Board of Directors of the Company;
- is not a representatives of the state and/or local governments, i.e. persons who shall vote under written directives (instructions, etc.) from the duly authorized federal authorities, authorities of the constituent entities of the Russian Federation or local governments.

4.1.3. Structure of the Board of Directors of and its committees. There are the following committees of the Board of Directors of the Company:

- Audit Committee;

- Personnel and Remuneration Committee;
- Strategy and Reforming Committee.
- Appraisal Committee

The activity of all committees shall be governed by the local regulatory documents of the Company containing provisions on the composition, jurisdiction, procedure for operation of the committees and the rights and duties of their members, namely:

- Regulations for the Audit Committee of RAO UES of Russia;
- Regulations for the Personnel and Remuneration Committee at the Board of Directors of RAO UES of Russia;
- Regulations for Strategy and Reforming Committee at the Board of Directors of RAO UES of Russia;
- Regulations for Appraisal Committee at the Board of Directors of RAO UES of Russia.

Committees of the Board of Directors shall be set up for the purposes of preliminary discussion of critical issues falling within the jurisdiction of the Board of Directors.

4.1.4. Procedure for operation. The Board of Directors shall hold meetings in accordance with the schedule prepared at the beginning of its term of office, which shall ensure the proper fulfillment of its duties. The Board of Directors shall hold meetings at least quarterly.

The procedure for operation of the Board of Directors shall be governed by the Regulations for the Board of Directors. The executive secretary of the Board of Directors shall ensure that all directors in a timely manner receive brief but comprehensive information simultaneously with the notice of the Board of Directors meeting, however at least eleven business days prior to each meeting.

The Board of Directors shall take minutes of its meeting. The minutes shall be signed by the Chairman of the Board and the Executive Secretary of the Board of Directors.

4.1.5. Remuneration. The remuneration of members of the Board of Directors shall meet the market conditions and shall be established so as to ensure engagement and involvement of top-notch specialists in the operation of the Company, encourage them to fair and efficient work.

The Company shall make information on the remuneration of members of the Board of Directors available to public.

The Company shall not extend any loans to members of the Board of Directors.

4.1.6. Duties of members of the Board of Directors. Members of the Board of Directors shall act in good faith and with due care for the benefit of the Company and all its shareholders. Each director shall seek to participate in all meetings of the Board of Directors.

Members of the Board of Directors shall realize their responsibility to the shareholders and believe that their principal goal is the conscientious and relevant fulfillment of duties related to the governance of the Company, which shall ensure the maintenance and growth of the value of its stock as well as the protection of shareholder rights and an opportunity for the shareholders to exercise their rights.

Members of the Board of Directors shall permanently seek to maintain a dialogue with the shareholders.

Members of the Board of Directors shall secure the development and implementation of the Company development strategy.

The Board of Directors shall establish and maintain the necessary mechanisms of control over the operation of the Management Board of the Company, including the monitoring and evaluation of its performance.

The Board of Directors shall establish a system of clear and transparent criteria and procedures for the appointment and replacement of members of the Management Board of the Company and an efficient remuneration system for its members.

The Board of Directors shall evaluate and ensure control over the implementation the Company reforming plans.

Members of the Board of Directors shall neither disclose nor use any confidential information about the Company for personal gain.

Members of the Board of Directors undertake to withhold from any acts that may lead to any conflict between their interests and the interests of the Company. In the event of such a conflict a member of the Board of Directors undertakes to notify the other Board members thereof and abstain from voting on respective issues.

4.2. Management Board, Chairman of the Management Board and Director General

The Company realizes that managing the daily operations of the Company requires a sole executive body represented by Director General. It also admits that during the governance process difficult tasks need to be solved, and a team rather than individual approach is required to solve them. Therefore, the Company shall set up the Management Board headed by the Chairman of the Management Board.

4.2.1. Powers. Chairman of the Management Board and the Management Board shall manage the daily operations of the Company for the purposes of accomplishing the objectives and implementing the strategy of the Company.

4.2.2. Membership. Director General shall submit recommendations regarding the membership of the Management Board that shall be approved by the Board of Directors of the Company.

4.2.3. Election, term and termination of powers of Chairman of the Management Board and the Management Board. Chairman of the Management Board shall be elected by the General Meeting of Shareholders of the Company. In his turn, Chairman of the Management Board shall propose candidates for the position of members of the Management Board to be approved by the Board of Directors.

The General Meeting of Shareholders may at any time terminate the powers of Chairman of the Management Board. The General Meeting of Shareholders may at any time terminate the powers of members of the Management Board.

4.2.4. Composition of the Management Board. The Management Board shall be composed of qualified and experienced persons, who shall ensure the efficient management of the daily operations of the Company. Each member of the Management Board, including Chairman of the Management Board, shall have expertise, knowledge and qualifications necessary for the proper performance of the imposed duties.

4.2.5 Procedure for the operation of the Management Board. The Management Board shall hold regular meetings, members of the Management Board shall receive information on agenda items with due advance. The procedures for the Management Board operation shall be governed by the Regulations for the Management Board of the Company.

4.2.6. Members of the Management Board of the Company shall be elected by the Board of Directors of the Company pursuant to a proposal by Director General of the Company.

4.2.6. Remuneration and performance assessment. The system of remuneration of Chairman of the Management Board and members of the Management Board shall be determined by the Board of Directors. Remuneration shall consist of the fixed and variable elements, the latter shall depend on the meeting of a certain system of performance indicators (hereinafter the "Indicators") for executive bodies and shall be connected with their personal input in ensuring a long-term development of the Company for the benefits of its shareholders.

The Indicators shall mean a system of financial and non-financial indicators influencing the quantitative and qualitative changes in performance in relation to the strategic goal of the Company.

In determining the Indicators for executive bodies the Board of Directors of the Company shall focus only on the most significant and exclude all secondary indicators reducing their number to the "key" indicators. The number of Indicators shall be limited (for their practicability and the quality of monitoring).

The objective of the system of Indicators shall be translating the strategy of the Company into an integrated set of its performance indicators which shall determine the principal parameters of the measurement and governance system. The set of indicators shall form the basis for developing the strategy of the Company and include quantitative characteristics for informing executive bodies of the principal success factors at present and in the future. By developing the strategy the Company shall set a goal and create an environment for achieving it.

4.2.7. Duties of executive bodies. Chairman of the Management Board and members of the Management Board shall act in good faith and with due care for the benefit of the Company and all its shareholders.

Chairman of the Management Board and members of the Management Board undertake to withhold from any acts that may lead to any conflict between their interests and the interests of the Company. In the event of such conflict Chairman of the Management Board and members of the Board of Directors undertake to notify the Board of Directors thereof and abstain from discussing and voting on respective issues.

The Company realizes that the experience, public relations, knowledge and qualifications of members of the Management Board, including those gained by them during their employment by the

Company, open up opportunities for performing commercial activities (both private and collective, through holding stakes and shares) unrelated to the interests of the Company.

At the same time, members of the Management Board shall guarantee that such activities:

- will not impede in any manner the fulfillment of functions as a member of the Management Board of the Company;
- will be unrelated to the utilization of tangible and intellectual resources of the Company;
- will not cause any financial damage to the Company;
- will not cause any damage to the business reputation of the Company;
- will not provoke competition for the Company.

In the event of non-fulfillment or creation of pre-conditions for non-fulfillment of at least one of the above conditions, a member of the Management Board undertakes to cease any activity related to such non-fulfillment.

In order to prevent any possible negative consequences for the Company, members of the Management Board shall disclose to the Company any information on their commercial activities unrelated to the interests of the Company in accordance with the procedure established by the local regulatory documents of the Company.

4.2.8. Interaction between the Board of Directors and executive bodies.

Effective corporate governance shall require an open dialog between the Board of Directors and the executive bodies of the Company. To that end, the Management Board of the Company shall submit to the Board of Directors quarterly reports on the activity of the Management Board in accordance with the Regulations for the Management Board.

5. Shareholders of the Company

5.1. Shareholder Rights and Protection of Shareholder Rights

The shareholders of the Company shall enjoy a set of rights in respect of the Company the observance and protection of which to be ensured by the Board of Directors and the Management Board of the Company.

The Company's Shareholder Register shall be kept by an independent registrar. The selection and appointment of an independent registrar having all necessary technical tools and an impeccable reputation shall allow the Company to ensure the reliable and efficient registration of the rights of ownership to shares and other securities of the Company.

The shareholders shall be entitled to receive information on the activity of the Company in a regular and timely manner in a sufficient scope to take informed and reasonable decisions.

For the purposes of proper observance and protection of the aforesaid right the Company shall guarantee compliance with the information disclosure requirements established by law.

The Company shall disclose financial statements in accordance with the requirements of laws of the Russian Federation and in conformity with the International Financial Reporting Standards (IFRS).

All information disclosed in any manner shall be mandatorily published on the web-site of the Company.

The holders of voting shares shall be entitled to participate in the General Meeting of Shareholders and shall have the right to vote on all issues falling within its jurisdiction.

For the purposes of proper observance and protection of the aforesaid right the Company shall arrange for holding the General Meeting of Shareholders in such a way that participation of the shareholders is not associated for them with any significant financial or time losses, ensuring equal treatment of all shareholders.

The Company undertakes to provide to the shareholders any information on items of the agenda of the General Meeting of Shareholders in a scope and within the time limits allowing the shareholders to adopt reasonable decisions.

In the instances provided for by the Law and the Charter of the Company the Board of Directors shall prepare objective reasonable recommendations for the shareholders.

All information concerning the General Meeting of Shareholders shall be mandatorily disclosed on the web-site of the Company.

The shareholders shall be entitled to a portion of net income of the Company in the form of dividends.

For the purposes of proper observance and protection of the aforesaid right the Company undertakes to pay declared dividends within the time limits set by the General Meeting of Shareholders.

The rights of shareholders shall be governed by the provisions of the Charter and the internal documents of the Company.

5.2. General Meeting of Shareholders

The Company has adopted the Regulations for the General Meeting of Shareholders that provides for a detailed description of the procedure of preparation, approval and adoption of resolutions by the General Meeting of Shareholders.

5.2.1. Preparation for the meeting. Each shareholder shall be entitled to participate in the General Meeting of Shareholders, vote on issues on its agenda, receive notice of such meeting with due advance and the agenda thereof as well as reliable, objective and timely information sufficient for the adoption of resolutions on any agenda items. The executive bodies of the Company shall be responsible for securing this process.

The Company shall have a fair and efficient procedure for submitting proposals for the agenda of the General Meeting, including motions on nomination of candidates to the Board of Directors. The agenda of the General Meeting may not be altered after its approval by the Board of Directors.

5.2.2. Holding of the meeting. The Company shall make all necessary efforts to ensure participation of the shareholders in the General Meeting and the voting on agenda items.

The location for the General Meeting shall be accessible by the shareholders. The registration procedure shall be convenient for the participants and ensure quick and unimpaired access to the location of the meeting.

The Company shall ensure that the General meeting of Shareholders is attended by members of the Board of Directors, executive bodies, the Internal Audit Commission and the auditor of the Company and authorizes them to answer the questions of the shareholders. The shareholders shall be entitled to speak on any agenda items, make respective motions and ask questions. The Chairman of the General meeting shall ensure its effective operation.

Voting shall be by ballots.

The procedure for calculation of votes at the General meeting shall exclude the possibility of manipulating the voting results. The functions of the counting commission shall be performed by the independent registrar of the Company.

5.2.3. Results of the meeting. The voting results and other necessary materials shall be provided to the shareholders on the day of the General Meeting or later and published in a timely manner on the web-site of the Company and in mass media.

5.3. Dividend Policy

The Company shall maintain a formally adopted provision for the policy in respect of the dividend payment. The dividend policy shall, among all, be made available on the web-site of the Company.

The procedure for determining the amount of dividends on preference shares shall not derogate from the rights of holders of ordinary shares. The dividend policy of the Company shall include:

- creating a transparent and clear mechanism for determining the amount of dividends;
- ensuring the most convenient for the shareholders dividend payment procedure;
- measures excluding any incomplete or untimely payment of declared dividends.

6. Information Disclosure and Transparency

6.1. Information Disclosure Policies and Practices

The principal goal of the policy for the disclosure of information about the Company implemented by the Company shall be ensuring the highest possible degree of confidence in the Company on the part of shareholders, potential investors, counterparties and other interested parties by providing to the aforesaid persons information about the Company, its activities and securities in an amount sufficient for the adoption by the aforesaid persons of reasonable and informed decisions in relation to the Company and its securities.

In disclosing information about itself, the Company shall go beyond the disclosure provided for by the regulations of the Russian Federation, and shall disclose any additional information which ensures a high level of transparency of the Company and contributes to achieving the goals of the information disclosure policy implemented by the Company.

The list of the information disclosed by the Company, the procedure and time limits for information disclosure shall be determined in the Regulations for the Information Policy of RAO UES of Russia as approved by the Board of Directors of the Company.

In disclosing information the Company shall rely on the following principles:

The principle of completeness and reliability of disclosed information in accordance with which the Company shall provide true information to all interest parties without avoiding the disclosure of any negative information about itself to the extent which allows forming the fullest idea of the Company and performance of the Company;

The principle of accessibility of information in accordance with which the Company in disclosing information shall use such channels for the distribution of information about its activity which provide free and easy access to disclosed information for the shareholders, creditors, potential investors and other interested parties;

The principles of balanced information which means that the information policy of the Company shall be based on the reasonable balance of transparency of the Company for all interested parties on the one hand and confidentiality on the other hand for the purposes of exercising the shareholder rights to receive information on the activity of the Company to the maximum extent subject to protection of information treated as confidential or insider information;

The principle of regular and timely information disclosure which determines that the Company shall provide to its shareholders, creditors, potential investors and other interested parties information on its activity within the time limits established by the regulations of the Russian Federation and the internal documents of the Company.

The information disclosed by the Company shall be published on the web-site of the Company. The web-site of the Company shall have an English version.

Information disclosure shall be the responsibility of the executive bodies of the Company. Members of the Board of Directors shall disclose to the Company information about themselves necessary for the disclosure by the Company of information in accordance with the regulations of the Russian Federation and the Regulations for the Information Policy of the Company.

6.2. Financial Statements

The Company shall maintain accounting records and prepare financial statements in accordance with the Russian financial accounting and reporting standards. The Company shall prepare consolidated statements in accordance with the International Financial Reporting Standards (IFRS) and publish such statements on the web-site of the Company.

Financial statements shall be accompanied by detailed notes which allow the recipient of such statements to correctly interpret data on the financial performance of the Company. Financial information shall be supplemented by comments and analytical estimates from the management of the Company as well as the Report of the Company's Auditor and the Internal Audit Commission. The Company shall prepare consolidated statements in accordance with the International Financial Reporting Standards (IFRS).

6.3. Control of Financial and Economic Activities

Realizing the need for reducing the probability of events which have a negative impact on the achievement by the Company of set goals and may lead to losses, in particular due to the adoption of decisions based on incorrect judgments, human errors, conscientious evasion of control, and admitting a high level of the shareholders' need for protecting their investments and safeguarding the assets of the Company, the Company shall establish a system of control over financial and economic activities.

Internal control over business activities shall be targeted towards achieving the following goals:

- ensure complete and reliable financial, accounting, statistical, managerial and other reports;
- ensure compliance with the regulations of the Russian Federation, resolutions of the management boards of the Company and the internal documents of the Company;
- ensure safety of the Company's assets;
- ensure that the goals set by the Company are achieved in the most efficient manner;
- ensure the resources of the Company are used in the most efficient and cost-effective manner;
- ensure the timely identification and analysis of financial and operating risks which may have a significant negative (unfavourable) impact on achieving the Company's goals related to its business activities.

The system of control over the business activities of the Company shall include control procedures determined by the regulations of the Russian Federation, resolutions of the General Meeting of Shareholders and the Board of Directors of the Company, and a set of bodies (subdivisions, persons) of the Company responsible for internal control: the Internal Audit Commission, the Board of Directors (directly and through the Audit Committee) and a separate subdivision (a number of subdivisions) authorized to exercise such control.

The functions, rights, duties and responsibility of the Company's subdivisions shall be stipulated by administrative documents of the Company.

To ensure the systematic nature of control over the business activity of the Company, internal control procedures shall be performed by the duly authorized subdivision of the Company responsible for internal control in collaboration with other bodies and subdivisions of the Company.

Specific procedures as well as bodies and persons responsible for performing internal control procedures shall be determined by the Regulations for the Internal Control Procedures of the Company as approved by the Board of Directors of the Company.

6.4. Ownership Structure

The Company shall ensure the disclosure of information on the beneficial holders of five percent or more of voting shares in the Company. The information disclosed by the Company shall also describe corporate relationship within the group of companies. The Company shall seek to ensure transparency of the Company's equity structure.

7. Restructuring of the Company, Relations with Subsidiaries and Dependent Companies

7.1 Restructuring of the Company

The substantiation and guidelines for restructuring the power industry are described in the regulations of the Russian Federation.

The Company shall participate in elaborating the concept of power industry restructuring, and exercise corporate governance and control over the implementation of the processes of power industry restructuring within the context of the members of RAO UES of Russia holding company.

The key document that described corporate-wide basic goals and objectives of the reform shall be the "5+5" Concept of RAO UESR's Strategy for 2003-2008 (hereinafter the "Strategy Concept").

The basic goals of the power industry restructuring include the improving of efficiency of power entities and creating favourable conditions for the industry development basically by using private investment along with engaging government investment in companies belonging to the regulated sectors of power industry.

In implementing the restructuring processes the Company strictly observes the following principles:

- ensure reliable and uninterrupted supply of power and heat to the consumers, comply with the power safety requirements;
- secure the rights of shareholders during corporate transformations;
- ensure transparency of restructuring procedures and public access to information about resolutions on restructuring issues adopted by the management bodies;
- improve the principles of corporate governance and bring them in accord with the best Russian and foreign standards;
- improve the investment policy of the Company;
- transparent and fair evaluation of assets related transactions.

The industry restructuring process implies qualitative changes of the structure of the industry designed to create mechanisms of market relations between the parties and stimulate private investment in the industry. For the purposes of restructuring Russian power industry and achieving the restructuring objectives, the Company shall be active in implementing a set of actions required for changing its own structure and restructuring the holding company.

In view of the above, corporate mechanisms and all transformation procedures (reorganization of companies, establishment of new entities) become highly important in the conditions of the restructuring. The Company shall ensure transparency of such transformations and their implementation in strict compliance with the law of the Russian Federation, the Charter and internal regulations of the Company, subsidiaries and dependent companies and the world best corporate governance practices.

Top priorities for the Company during such transformations shall be ensuring that the shareholders exercise control over the progress of transformations and participate in decision-making process on the matters related with their lawful rights and interests.

The Board of Directors of the Company which discusses the vital questions of the reform is composed, among all, of government officials, minority shareholders and the Company executives.

To secure the adoption of qualitative and timely decisions and coordination of opinions of all interested parties, the Board of Directors set up the Committees (in particular, the Strategy and Reforming Committee, Appraisal Committee and Audit Committee at the Board of Directors).

The above corporate governance tools are designed to establish an effective dialogue and many-sided discussion of the critical restructuring issues by all interested parties. Such a dialogue shall be aimed at adoption of mutually acceptable decisions both in terms of the Company and its subsidiaries and dependent companies.

By improving the corporate governance mechanisms and methods, the Company shall seek to ensure that the companies established within the restructuring process acquire worthy experience and corporate culture of the Company, thus creating a basis for future effective development of the companies for the benefit of all shareholders.

The Company's corporate policy and corporate governance practices shall facilitate the goals and objectives of the power industry restructuring.

7.2. Principles and Practices of Interaction with Subsidiaries and Dependent Companies

The Company shall seek to promote balanced development of the holding company in general based on effective corporate governance mechanisms.

In order to exercise its rights as a shareholder and being the parent company of the Holding Company, the Company shall build its relationship with the subsidiaries and dependent companies (the SDCs) in accordance with the requirements of laws of the Russian Federation, the Charter and internal documents of the Company, the Charters of the subsidiaries and dependent companies.

The principal goals of interaction between the Company and its SDCs shall be as follows:

- ensure sustainable financial development, profitability of operation, and increasing the attractiveness of the Company and its SDCs;
- ensure the protection of rights and lawful interests of the shareholders of the Company and its SDCs;
- harmonize relationship among the shareholders, executives and members of labor teams of the Company and its SDCs, preventing conflicts among them and within the the aforesaid groups;
- develop and implement the coordinated and efficient investment policy of the Company and its SDCs.

The Procedure for Interaction Between RAO UES of Russia and Business Entities in Which RAO UES of Russia Owns Shares (Stakes) (hereinafter the "Procedure") shall be the document stipulating the main principles and provisions of corporate governance of the SDCs of the Company. In accordance with the aforesaid Procedure, interaction between the Company and its SDCs shall be performed pursuant to the respective resolutions adopted by the management and supervisory bodies of the SDCs (resolutions of general meetings of shareholders, Boards of Directors, Internal Audit Commissions, Management Boards and sole executive bodies within their jurisdiction).

In addition to the aforesaid Procedure, the process of corporate governance of the SDCs shall be regulated by the following documents:

- Charter of the Company;
- Corporate Governance Code of the Company;
- Charters of the SDCs of the Company;
- Standards and regulations related with corporate governance procedures.

As corporate governance practices evolve, the Company shall seek to develop the principles of corporate governance in relation to its subsidiaries and dependent companies.

8. Final Provisions

This Code shall become effective upon its approval by the Board of Directors of the Company.