

APPROVED by
OMZ (Uralmash-Izhora Group)
Board of Directors
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OMZ (Uralmash-Izhora Group)

CODE OF CORPORATE CONDUCT

Moscow, 2002

The present Code of Corporate Conduct is a set of voluntary rules and responsibilities, endorsed by all parties in OMZ.

OMZ (Uralmash-Izhora Group), (hereafter OMZ), is the largest Russian heavy engineering corporation, uniting leading design and production enterprises, including engineering and manufacturing assets in Ukraine, Romania and the United States. OMZ shares are publicly traded on leading domestic stock exchanges and international OTC markets. OMZ is owned by both domestic and international shareholders. The Corporation is a large employer in the Russian heavy industry.

Being a loyal corporate citizen of Russia and with full awareness of its responsibilities before its shareholders, employees and the society, OMZ clearly recognizes the importance of adhering to best corporate ethics for successful operation and harmonized relations among all the stakeholders. OMZ therefore voluntarily endorses the obligation to do all reasonable efforts in order to operate on a daily basis in accordance with the corporate conduct principles laid down below.

Basic principles of OMZ Corporate Conduct

OMZ corporate conduct principles are based on the respect of rights and legitimate interests of its stakeholders as a key prerequisite for successful and efficient operations, financial stability, higher profitability and shareholder value, enhanced competitiveness and investment appeal.

OMZ undertakes to follow the principles set out below:

- respect of shareholders' rights, granted by the legislation, the company Charter and other by-laws;
- respect of the interests of all shareholder groups;
- respect of legitimate rights and interests of other stakeholders, including employees, creditors, shareholders in OMZ subsidiaries; as well as rights and interests of the State and local authorities;
- informational transparency and openness;
- ethical business conduct;
- integrity, faithfulness and responsibility of Board members and managers in fulfilling their duties;
- social responsibility, loyal abidance of all legal, tax and other norms in all countries where OMZ operates.

OMZ Corporate Governance

Corporate conduct principles are a set of basic rules applied to the creation, maintenance and further improvement of OMZ's corporate governance.

OMZ's corporate governance is a comprehensive system of governance and control of the company activities, determining the rights and responsibilities of all participants of this system – shareholders, Board members, managers and other stakeholders.

While strictly observing all legal and statutory requirements applicable to the relationship between all stakeholders of a corporation, OMZ undertakes to implement a set of additional voluntary measures, explicitly aimed at providing additional security and benefits to all participants of corporate relations.

OMZ shareholders and the General Shareholders Meeting

OMZ undertakes to ensure that its shareholders have a real possibility to exercise their rights, and provides adequate protection in case such rights are infringed. In addition, OMZ provides a set of additional rights to its shareholders based on the principle: "equal rights to owners of equal stakes of equal classes of shares".

1. Attributing highest importance to proper registration and handling of ownership title for its securities, OMZ will select the Independent Registrar with extensive experience in providing registration services, impeccable business reputation and required technologies and controlling tools in place. The independent registrar is selected and approved by the Board of Directors.

2. OMZ will do all necessary steps in order to ensure and facilitate the execution of shareholders' right to freely transfer their shares by constantly working on improving the liquidity of its shares, including trading on international stock exchanges and availability of efficient settlement and information infrastructure.

3. OMZ will ensure that shareholders can freely exercise their right to participate in governing the company through the General Shareholder Meetings and make informed and well-balanced decisions, by the following voluntary steps:

- simultaneous use of all three means of communication to notify shareholders about the upcoming meetings: printed media, Internet and direct mailing to each shareholder;
- dissemination of the meeting announcement and all relevant materials well in advance and in two languages: Russian and English, to ensure timely reception by all shareholders and the ability of both domestic and foreign shareholders to make informed decisions;
- availability of contact details of the Corporate Secretary and Investor Relations Officer so that shareholders may easily address their questions regarding the Meeting materials and procedures;
- selection of the meeting date and venue in such manner that shareholders' participation is not impeded by unreasonable financial or time costs;
- mandatory attendance of the Chief Executive Officer, representatives of the executive members of the Board of Directors, representatives of the independent Board members, representatives of the Audit Committee and the External Auditor at the Annual General Shareholder Meetings;

4. OMZ will, at its own expense, undertake all necessary steps to verify the shareholders' eligibility to nominate candidates to the company's Board of Directors and submit proposals to the meeting agenda;

5. OMZ establishes clear and transparent policies of dividend calculation and payment, set out in the Dividend Policy Provision approved by the Board of Directors. The company explicitly guarantees timely payment of announced dividends.

6. OMZ voluntarily expands the rights of shareholders owning 5% or more of the company's voting stock by entitling such shareholders to request calling a meeting of the Board of Directors to review one or several of the following crucial issues: priority directions of the company operations; putting on vote at the general shareholder meeting the issues of company reorganization, liquidation, share splitting and consolidation.

7. OMZ introduced the position of Corporate Secretary, the key role of which is to ensure full compliance of the company and its departments and officials with all applicable legal and statutory documents and the company by-laws and to facilitate the communication between different company stakeholders. All rights, obligations and procedures of the Corporate Secretary are set out in the Provision about the Corporate Secretary, approved by the Board of Directors.

8. In order to ensure rights and legitimate interests of shareholders - owners of American Depository Receipts (ADRs), including the right to participate in the governance of the company, OMZ undertakes to do its best to facilitate such shareholders' ability to adequately express their will on items on the agenda of general shareholders' meetings. To achieve this the company undertakes to provide the depository bank well in advance with all announcements and materials for the general meeting for further dissemination to ADR owners. Besides, the company voluntarily refuses to use the discretionary proxy on "silent ADRs". OMZ intends to issue such proxy to one of shareholder activism organizations, which may be selected through an open tender. Tender participants will be asked to present their voting principles for all items of the meeting agenda. Such principles will have to ensure equal treatment and adequate protection of all shareholders and shall be in line with best corporate governance principles.

9. OMZ expects that all shareholders recognize their responsibilities before each other, the company, its management and other stakeholders for long-term and sustainable stability, profitability and value of the company.

10. OMZ classifies a shareholder (or shareholders) owning collectively 5% or more of the company stock as large shareholders, able to have a significant impact on the company operation. In this regard OMZ expects that such shareholders will act faithfully and prudently, including:

- recognition of ownership of OMZ shares and disclosure of information about affiliated parties;
- refuse from the use of insider information, including insider trading of OMZ shares based on such information;
- refuse from applying pressure on the Board of Director and the executive management in order to promote their sole interests or benefits at the expense of other stakeholders;
- election of the Board of Directors in line with the present Code of Corporate Conduct, including election of a necessary number of independent directors and election of directors with

the necessary experience and skills to ensure the efficient working of the Board of Directors and its Committees.

OMZ Board of Directors

The primary objective of OMZ Board of Directors is to faithfully and competently perform its duties, work towards achieving long-term and sustainable growth of the company's shareholder value, treat fairly and equally all shareholders and ensure their ability to duly exercise their rights.

OMZ Board of Directors is the senior body for strategic governance of the company, control over its financial stability, risk management and compliance.

OMZ Board of Directors acts in accordance with the letter and the spirit of the Law, and in compliance with the company's Charter and other by-laws, including the Provision about the Board of Directors, which clearly defines their rights, duties and responsibilities.

In order to ensure efficient monitoring and control of crucial aspects of the company's operations, such as management performance, financial stability, internal accountability, transparency and adherence to world's best corporate governance principles, OMZ Board of Directors creates Board Committees: a Compensation Committee and an Audit Committee. These committees are fully and solely accountable to the Board of Directors. Detailed objectives, duties and procedures of each committee are set out in respective Provisions, which are approved by the Board of Directors and are binding for all departments and officials of the Corporation and its subsidiaries.

The number of seats in the Board of Directors must ensure its efficiency and the possibility of fair representation of various shareholder groups. Such number shall be at least 7, and is subject to approval by the decision of the general shareholder meeting.

Three categories of directors - executive, non-executive and independent directors - may be members of the Board of Directors.

An independent director shall be a member of the Board of Directors who:

- Was not a member within the last 3 years and is not now a member of the Company's executive authority;

- Is not an official or employee of the Company or its affiliated entities;

- Is not a person who is affiliated with an affiliated entity of the Company;

Is not official or employee of the Company's partner or contractor or of their affiliated entities;

- Is not a person who is affiliated with an affiliated entity of the Company's partner or contractor;

- Does not receive income from the Company, except for remuneration for participation in the in the operation of the Board of Directors and for consulting services rendered to the Company beyond the scope of his obligations as a member of the Board of Directors, for a sum no greater than 100,000 US dollars;

- Is not a holder of more than 2 percent of the Company's voting shares;

- Is not a holder of more than 5 percent of the Company's bonds;

- Is not the husband (wife), father, mother, sister or half-sister, brother or half-brother, son, daughter, adoptive parent or adoptee of a person who is a member of the management bodies of

the Company or its affiliated entities;

- Is not a representative of the government.
- Is not an official of or employed by shareholder(s) who have nominated him (her) to the Board of Directors, or their affiliated parties; who does not receive income from or is in any other way remunerated by the shareholders or their affiliated parties for a sum greater than 100,000 US dollars.

Non-executive directors are representatives of the shareholders, who do not meet the requirements for independent directors set out above.

Executive directors are representatives of the management who are employed and remunerated by the Company.

In line with the best corporate governance practices, and in order to ensure a well-balanced representation of interests of various groups of stakeholders, OMZ Board of Directors shall include at least 3 independent members, but not less than one quarter of the total number of seats. The list of criteria and requirements, applied to independent directors, is set forth in the Provision about the Board of Directors and is developed to reflect best up-to-date corporate governance and Board practices.

If after the election of an independent candidate to the Board of Directors circumstances arise, which prevent such director from further qualifying as independent Board member, such director shall inform the Board about such circumstances in writing. The Board, upon receiving such note, or otherwise becoming aware about the said circumstances, shall inform the company shareholders, and, if necessary, may initiate an EGM to elect the new Board of Directors.

The company discloses the information about its independent directors in its Annual Report, also available on the company's web site.

Every newly elected member to the Board of Directors should sign a declaration, confirming his (her) status, determined by the governing documents of the company and the information presented in the Declaration. The elected member of the Board of Directors is responsible for updating the Declaration with any changes relating to the information in the Declaration. The Declaration also includes a non-disclosure provision relating to insider and confidential information.

OMZ Board of Directors cannot make decisions in absentee on the following most critical issues:

- priority directions of the company activities;
- decision to convene or refuse to convene an extraordinary general meeting;
- putting on vote by the general shareholder meeting proposals about reorganization or liquidation of the company, about share splits and consolidation.

OMZ Executive Management

The company's day-to-day operations are managed by the Chief Executive Officer (General Director). The CEO is responsible for the implementation of the company's mission, strategy and policies and is accountable to the Board of Directors and the General Shareholder Meeting.

The CEO is appointed by the Board of Directors for the period of 1 year.

Rights and responsibilities of the CEO, as well as the amount and payment terms of its remuneration are defined by the contract between the CEO and the Company. Draft contract is subject to approval by the Board of Directors. The CEO has no vote on this matter.

OMZ Chief Executive Officer cannot be a stakeholder, an official or an employee of a company's competitor.

OMZ CEO's participation in management bodies of other institutions is subject to approval by the Board of Directors.

In order to ensure maximum efficiency, transparency and accountability of operational management in OMZ, the company creates an Executive Committee, which will comprise of 7 top company officials. The Committee's rules and procedures, rights and obligations of its members and accountability principles are defined by the Provision about the Executive Committee, approved by the Board of Directors.

OMZ compensation policy

OMZ implements a fully transparent policy of Board members and executives compensation, built upon best corporate governance principles.

The compensation of OMZ Board members is defined by the Provision on the Remuneration of Board members, developed by the Compensation Committee and subject to approval annually by the General Shareholder Meeting. The amount, structure and vesting conditions of Directors' compensation are developed to ensure due motivation of directors to work towards long-term sustainable growth of the company's value and shareholder returns, while at the same time providing a fair, reasonable and adequate remuneration for the time, efforts and responsibilities associated with Board membership.

OMZ implements a modern and comprehensive executives compensation policy, with a Stock Option Plan as a core element of this system. The compensation policy is aimed at matching the interests of the company managers and its shareholders, while providing a competitive compensation package among a peer group of companies, enabling OMZ to attract and retain best professional talent.

Details of the executives' compensation policy are defined in the Stock Option Plan and other documents, developed by OMZ Compensation Committee; such documents to be disclosed to the company shareholders.

The total amount of remuneration paid and/or expenses compensated to members of OMZ Board of Directors and the CEO is disclosed in the company's annual report.

Board members and CEO liability

OMZ Board members and the CEO are liable to the company for losses incurred as the result of their guilty acts (or failure to act), unless other liability arises under the federal law.

OMZ will take measures to terminate the office of Board members and/or the General Director, guilty of losses and to hold them liable for violation of their obligations before the company.

The Company makes provisions for Directors' Liability Insurance.

Audit

Being an open and transparent internationally traded company, OMZ maintains its records both according to Russian Accounting Standards (RAS) and International Financial Reporting Standards (IFRS).

In order to ensure maximum objectiveness and accuracy of its financial statements, the company uses the services of reputable and experienced independent audit company amongst the large international audit companies. Election of the auditor is coordinated by the Audit Committee of the Board of Directors.

Seeking to achieve best quality and reliability of audit services, and in line with most up-to-date audit practices, OMZ seeks to avoid any conflicts of interest, therefore it undertakes not to contract the external auditor, hired for the audit of its annual financial statements and the financial statements of acquired companies, for any other services .

Information Disclosure

Adequate information disclosure is a crucial component of good corporate governance, allowing shareholders, potential investors, government authorities and the civil society to have a clear understanding about the company's operations, principles and strategies.

OMZ undertakes to timely and accurately follow all applicable information disclosure requirements set forth in respective legislative and statutory documents. In addition, the company implements a number of additional voluntary disclosures.

Key principles of OMZ information disclosure policy are regularity and timeliness of providing information about material facts and developments in the company, making such information easily accessible to the majority of interested parties. For these purposes the company extensively uses modern communication means, including the company web sites in two languages. The company will ensure accuracy and completeness of information disclosed, while seeking to carefully maintain a reasonable balance between the openness of the company and its commercial interests.

Detailed rules and procedures of additional voluntary information disclosure are set forth in the Provision on Information Policy, approved by the Board of Directors.

Concluding provisions.

This Code and all amendments hereto are subject to the approval by OMZ's Board of Directors.

The present Code comes into force as of the date of its approval by the OMZ Board of Directors, December 19, 2002.

The current version of the Code was approved by the Board of Directors on April 16, 2003.