

Approved by a resolution  
of the Board of Directors  
of NOVATEK OJSC  
Minutes No. 60  
as of December 15, 2005

**CORPORATE GOVERNANCE CODE**  
**NOVATEK OPEN JOINT-STOCK COMPANY**

The City of Moscow  
2005

## **1. PREAMBLE**

The Company interprets the corporate governance as a combination of processes ensuring management of and control over the Company's activities in the interests of the shareholders, and efficient relationship between all agents (members) of such process: the Company's shareholders, the Board of Directors and the executive bodies. The Company regards the corporate governance as a tool for enhancing the Company's operating efficiency, building a common corporate culture, strengthening the Company's goodwill, and cutting cost of fund raising. The Company regards the corporate governance as a tool for enhancing the Company's operating efficiency, building a common corporate culture, strengthening the Company's goodwill, and cutting cost of fund raising.

This Corporate Governance Code of NOVATEK Open Joint-Stock Company (hereinafter referred to respectively as "the Code" and "the Company") represents a body of principles and was worked out in accordance with the laws of the Russian Federation, the Corporate Governance Code worked out by the Federal Commission for the Securities Market of Russia, and the Company's Articles of Association subject to the international standards and the principles of business conduct.

### **Internal Documents Outlining the Procedures of Corporate Governance**

The specific corporate governance structures, procedures and practices outlined herein are governed by the Company' Articles of Association and internal documents, including:

- Regulations on the General Meeting of the Shareholders;
- Regulations on the Board of Directors;
- Regulations on the Committees of the Board of Directors;
- Regulations on the Board;
- Regulations on the Internal Audit Commission; and
- Regulations on the Information Policy.

## **2. GENERAL PRINCIPLES OF CORPORATE GOVERNANCE**

In performing their activities the Company shall be governed by the following general principles:

- Equal attitude towards the Company's shareholders, including minority and foreign shareholders, and protection of their rights;
- Accountability of the Board of Directors to the shareholders;
- Efficient control over the Company's management;
- Ensuring informational and financial transparency;
- Compliance with business ethic standards;
- Social responsibility of the Company.

## **3. RELATIONSHIP BETWEEN THE SHAREHOLDERS AND THE COMPANY**

### **Protection of the Shareholders' Rights**

The Company shall acknowledge the shareholders' right to to freely dispose of their shares and perform any acts neither inconsistent with the laws of the Russian Federation, nor violating any rights and legal interests of third parties.

The Company warrants that the members of their management and control bodies, the officers, and other employees of the Company shall, acting within their powers, facilitate the exercise and protection of the said rights and legal interests of the Company's shareholders.

The registration of title and other rights to the shares, as well as maintenance and keeping of the register of the Company's registered securities holders shall be performed by an independent

registrar enjoying an impeccable reputation in the securities market and appointed by the Board of Directors. The right to choose and approve an independent registrar shall be vested in the Board of Directors.

The Company shall acknowledge the shareholders' right to demand protection of their title to their shares from any violations and encroachments.

The Company, the members of their management and control bodies, the officers, and other employees of the Company shall endeavor their best efforts to properly observe and protect the said right.

### **Shareholders' Voting Rights**

The Company shall acknowledge the shareholders' right to participate in managing the Company by adopting resolutions at General Meetings of Shareholders.

To create conditions for exercising the said right and protect the same, the Company shall arrange General Meetings of Shareholders in such a manner so that participation of the shareholders therein does not require considerable costs and time, and ensure equal attitude towards all shareholders.

The Company shall provide the shareholders with any information related to the items of the General Meeting's agenda in the volume and within the time frame reasonable for the shareholders to develop their stance on each item of the agenda.

### **Shareholders' Rights to Participate in the Profits**

The shareholders shall be entitled to receive a portion of the Company's net profits in the form of dividends.

### **Shareholders' Information Rights**

The Company shall regularly and timely provide the shareholders with complete and reliable information on the results of the Company's activities, the Company's financial standing, the economic figures, the Company management, the Company's principal shareholders, the material facts affecting the Company's financial and economic activities, the price sensitive information, and any other information the Company is obliged to provide to their shareholders pursuant to the requirements of the statutory acts and those of the Company's internal documents.

To more fully inform any interested persons on the Company's activities, the Company shall disclose additional information in accordance with the Regulations on the Company's Information Policy.

The Company shall provide the shareholders having no less than one per cent of the votes with a possibility to study the list of persons entitled to participate in the General Meeting of Shareholders; the stated possibility shall be provided during the period from the date of notifying on holding the General Meeting of Shareholding through the date of bringing it to an end.

The Company shall acknowledge that the shareholders holding 2 and more per cent of the Company's voting shares are able to have an effect on the Company's activities. Due to this, the Company and other shareholders shall expect from such shareholders to:

- acknowledge their shareholding and disclose the information on their beneficial owners and affiliates;
- disclose the information on their transactions with the Company's shares; and
- waive to use the information on the shareholders entitled to participate in the General Meetings of Shareholders if it may damage the interests of other shareholders.

## **4. CORPORATE GOVERNANCE BODIES**

The Company's management bodies shall include:

- General Meeting of the Shareholders - the superior management body of the Company through which the shareholders exercise their right to participate in management of the Company;
- Board of Directors elected by the General Meeting of the Shareholders for performing strategic management of the Company and control over the executive bodies' activities;
- Board and Chairman of the Board - the executive management bodies managing day-to-day activities of the Company within the strategy determined by the Board of Directors and the shareholders;
- **Internal Control System**, which shall include the following bodies:
  - Internal Audit Commission;
  - Independent External Auditor;
  - Audit Committee of the Board of Directors;
  - Structural subdivision exercising functions of internal control.

## **5. GENERAL MEETING OF THE SHAREHOLDERS**

The General Meeting of the Shareholders shall be the superior management body of the Company, which activities shall be specified in the Regulations on the Procedure of the Company's General Meeting of the Shareholders.

The procedure of preparing and holding General Meetings of Shareholders provided for in the Regulations shall guarantee equal rights for all shareholders to participate in General Meetings of Shareholders and express their opinions on all items of the agenda thereof.

The Company shall issue a notice of holding the General Meeting of the Shareholders at least 30 days prior to its holding.

The Company shall enable the shareholders to study the information required for adopting well-balanced resolutions on the items of the General Meeting's agenda:

- before the General Meeting of the Shareholders, but no later than 20 days prior to its holding: at the Company's office and on the Company's website;
- during the time of holding the General Meeting of the Shareholders: in the premises where the same is held;
- at any other places which addresses are specified in the notice of holding the General Meeting of the Shareholders.

Pursuant to the effective laws and the Company's Articles of Association, the Company shall acknowledge the following shareholders' rights:

- The shareholders holding no less than 1 per cent of the votes shall be entitled to receive the list of persons entitled to participate in the General Meeting of the Shareholders;
- The shareholders holding in aggregate no less than 2 per cent of the Company's voting shares shall be entitled to propose items in the agenda of the annual General Meeting of the Shareholders;
- The shareholders holding in aggregate no less than 10 per cent of the Company's voting shares shall be entitled to demand convening an extraordinary General Meeting of the Shareholders.

## **6. BOARD OF DIRECTORS**

The Board of Directors shall be the Company's collegial management body performing general management of the Company's operations, which functions shall be specified in the Regulations on the Board of Directors.

Pursuant to the current laws and the Company's Articles of Association, the Company shall acknowledge that the shareholders holding in aggregate no less than 2 per cent of the Company's voting shares are entitled to propose candidates to the Board of Directors.

The Company shall endeavor so that not less than one third of the total number of the Board of Directors' members are the independent directors meeting the current requirements of the Federal Service for the Financial Markets.

The Board of Directors shall be accountable to the General Meeting of the Shareholders and arrange the implementation of resolutions thereof.

The functions of the Board of Directors shall include:

- formulation of the Company development strategy and control over its implementation;
- ensuring efficient management of the Company;
- control over the activities of the Company's executive bodies and those of the management;
- ensuring efficiency of the Company's internal control and risk management system; and
- facilitating exercise and protection of the shareholders' rights.

The following committees are established at the Board of Directors to consider certain issues lying within its competence: Audit Committee, Strategy Committee, Corporate Governance Committee, and other standing and interim committees. The functions of the Committees and their formation and operational procedures shall be determined for each Committee in the Regulations approved by the Board of Directors.

The Company shall acknowledge and ensure performance by the members of the Board of Directors of their duties in good faith, reasonably, and in the interests of the Company and all of the shareholders.

The members of the Board of Directors shall be jointly and severally liable to the Company for any damage caused to the Company through their wrongful acts (omissions).

## 7. EXECUTIVE BODIES

The Company's executive bodies shall include a collegial executive body (**the Board of the Company**) and a sole executive body (**the Chairman of the Board**), which functions shall be specified in the Regulations on the Board.

The executive bodies shall manage the Company's activities by combining, as efficiently as possible, the need of the Company development and observance of the shareholders' interests to receive dividends.

To achieve the Company's goals, the executive bodies shall be responsible for the Company's current activities and the compliance thereof with the business plan, and fulfill, in good faith, timely and efficiently, resolutions of the Board of Directors and those of the General Meeting of the Shareholders.

The Company's Board shall be elected by the Board of Directors from among the Company's employees in the quantity of 11 as advised by the Chairman who shall thereafter arrange the work of the Board.

The Chairman of the Board shall be elected by the General Meeting of the Shareholders. The Chairman of the Board shall perform day-to-day management of the Company's activities and represent the Company both in the Russian Federation and abroad.

When exercising the powers of the Company as a member or a shareholder of the Company's subsidiaries, or as a member of the Boards of Directors of the Company's subsidiaries, the Chairman of the Board shall act under the Board's resolutions on the material issues.

When exercising his/her rights and performing his/her duties, the Chairman of the Board shall act in the Company's interests, and exercise and perform the same in respect of the Company in good faith and reasonably. The Chairman of the Board shall abstain from any acts which will or may cause a conflict between his/her interests and those of the Company. Should the conflict arise, the Chairman of the Board shall notify the Board of Directors thereof in written form. When

exercising the powers of the Company as a member or a shareholder of the Company's subsidiaries, or as a member of the Boards of Directors of the Company's subsidiaries, the Chairman of the Board shall act under the Board's resolutions.

The Chairman of the Board shall have an appropriate professional expertise and an impeccable reputation.

The Board shall be accountable to the Board of Directors and perform their activities in strict compliance with the laws of the Russian Federation, other statutory acts, the Company's Articles of Association, this Code, the Regulations on the Board, and other internal documents of the Company, as well as with the resolutions of the General Meeting of the Shareholders and those of the Board of Directors.

When adopting resolutions at a meeting of the Board, each member of the Board shall have one vote. The resolutions on the material issues at a meeting of the Board shall be deemed adopted if 10 members of the Board voted affirmatively. The resolutions on any other issues at a meeting of the Board shall be adopted by the majority of votes of the Board's members present at the meeting.

The members of the Board shall be personally liable for the state of affairs in the Company within their competence defined by the resolutions of the General Meetings of Shareholders, those of the Board of Directors, and the Regulations on the Board. Should any member of the Board be personally interested in a transaction a party to which the Company is or intends to become, such member shall report such interest prior to the adoption of a resolution on such transaction. The said member of the Board shall not participate in the voting on the mentioned issue.

No members of the Board shall be entitled to establish or participate in any commercial entities competing with the Company in the same business, save for the cases when the Company's Board of Directors permit them to.

The Board of Directors shall be entitled to terminate at any time the powers of any member of the Board. The termination of the powers of a Board's member shall not entail dismissal of the member from his/her respective office in the Company.

## **8. CONTROL OVER FINANCIAL AND ECONOMIC ACTIVITIES OF THE COMPANY**

The control over the Company's financial and economic activities shall represent the system of procedures performed by the Board of Directors, the executive and control bodies, the officers and other employees of the Company, and be aimed at ensuring reasonable guarantees of achievement by the Company of the Company's goals in the following fields:

- productivity and efficiency of the Company's economic activities;
- reliability and accuracy of all types of the Company's accounts;
- compliance with the requirements of the laws of the Russian Federation, and those of the statutory acts and internal documents of the Company.

The Company's financial and economic activities shall be governed by the Regulations on the Internal Control over the Company's Financial and Economic Activities approved by the Board of Directors.

The Chairman of the Board shall be responsible for arranging internal control over the Company's financial and economic activities.

The Company's Internal Audit Service shall directly estimate the appropriateness, sufficiency and efficiency of the internal control system and control over the observance of the internal control procedures, and the Audit Committee of the Board of Directors shall control the same.

The Audit Committee shall be established by the Board of Directors for the purpose of performing control over the completeness and reliability of financial and other accounts, the process of preparation and submission of the accounts, the internal control, internal audit and risk management system operation, and the process of ensuring compliance with the laws, other

statutory acts, the Company's Articles of Association, and other internal documents of the Company.

To audit and verify the annual financial accounts, the Company shall annually engage a professional auditor not connected with the Company or the Company's shareholders by any property interests.

The independent auditor shall be approved by the General Meeting of the Shareholders. The terms and conditions of the agreement to be concluded with the auditor, including the fees, shall be approved by the Board of Directors.

Pursuant to the current laws and the Company's Articles of Association, the Company shall acknowledge that the shareholders holding in aggregate no less than 2 per cent of the Company's voting shares are entitled to propose candidates to the Company's Internal Audit Commission.

## **9. DIVIDENDS**

The Company shall assume a crucial significance of ensuring participation of the shareholders in the Company's profits.

The Company's dividend policy shall be based on a principle of reasonable distribution of the Company's profits both subject to the shareholders' interests and the Company's need to develop.

The dividends shall be paid to the shareholders in accordance with the Company's dividend policy worked out by the Board of Directors and defining a dividend payout ratio and time.

The Company shall disclose the information on their dividend policy in accordance with the requirements of the statutory acts and those of the Company's internal documents.

The resolution on the payment of dividends on the shares, the amount of dividends and the form of payment shall be adopted by the General Meeting of the Shareholders on the recommendation of the Board of Directors.

## **10. INFORMATION POLICY**

The Company's information policy shall be aimed at providing the shareholders, investors and other interested persons with complete and reliable information on the Company and the Company's activities subject to the laws and other statutory acts of the Russian Federation and not infringing the Company's commercial interests.

The Company's information policy shall be governed by the Regulations on the Information Policy approved by the Board of Directors and regulating principal issues of disclosure (provision) of information on the Company and the Company's activities.

The basic principles of the Company's information policy shall include:

- regularity and timeliness of providing information;
- availability of the information disclosed for the shareholders, investors and other interested persons;
- reliability and completeness of the information disclosed;
- observation of a reasonable balance between the Company's transparency and the Company's commercial interests subject to the requirements of the Federal Law "On Trade Secrets" and the Federal Law "On Informatization and Information Protection".

The use of insider information on the Company's activities and protection thereof shall be governed by the Regulations on the Information Policy.

## **11. SETTLEMENT OF CORPORATE CONFLICTS**

The Company shall attach great importance to the timely prevention and fair settlement of corporate conflicts.

The Company shall adhere to the principle of the need to settle corporate conflicts at the possibly earlier stages of their development.

Should a corporate conflict arise, the Company shall hold a stance based on the requirements of the laws of the Russian Federation, and those of other statutory acts, the Company's Articles of Association and internal documents, and the agreements entered into by the Company.

With the consent of the shareholders being parties to a corporate conflict, the Company's management and control bodies (members thereof) may:

- take part in negotiations between the shareholders;
- provide the shareholders with any available information and documents related to the conflict;
- clarify the requirements of the statutory acts, and those of the Company's Articles of Association and the internal documents;
- provide the shareholders with advice and recommendations;
- on behalf of the Company prepare draft documents on the settlement of conflicts for their signing by the shareholders;
- assume, within their competence, obligations to the shareholders to the extent in which that may be conducive to the conflict settlement.

## **12. CONTROL OVER COMPLIANCE WITH THIS CODE**

The Corporate Governance Committee of the Board of Directors shall be in charge of control over compliance herewith, as well of the issues related to amending this Code subject to (i) new corporate governance standards in the Russian and international practices, and (ii) interests of the shareholders, the Company and other persons concerned.

At their meetings, the Corporate Governance Committee shall from time to time study issues related to compliance herewith and inform the members of the Board of Directors on the results of such study.