

APPROVED by
OMZ (Uralmash-Izhora Group)
Board of Directors
on 19 December 2002

Current edition revised and approved
by OMZ (Uralmash-Izhora Group)
Board of Directors
on 16 November 2004

OMZ (Uralmash-Izhora Group)

CODE OF CORPORATE CONDUCT

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

OMZ (Uralmash-Izhora Group), (hereafter OMZ), is one of Russia's largest heavy engineering corporations, uniting leading design and production enterprises in Russia and the Czech Republic. OMZ is owned by both domestic and international shareholders. OMZ's securities are publicly traded on leading domestic stock exchanges. The Company's securities are also traded on the London Stock Exchange, following a full listing of its ADRs, and OTC on several international markets.

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 the development of successful relations among all stakeholders. OMZ therefore voluntarily endorses the obligation to do all reasonable efforts in order to operate in accordance with the corporate conduct principles laid down below.

Basic principles of Corporate Conduct at OMZ

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 adhere to the following principles:

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

Corporate Governance at OMZ

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, the Company undertakes to implement a set of additional voluntary measures, explicitly aimed at providing additional security and benefits to all OMZ stakeholders.

OMZ shareholders

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 an independent Registrar with extensive experience in providing registrar services, impeccable business reputation and the required technologies and control tools in place. The independent registrar is selected and approved by the Board of Directors.

2. OMZ will take all necessary steps in order to ensure and facilitate the execution of shareholders' right to freely manage their shares by constantly working on improving the liquidity of its shares, including trading on international stock exchanges and providing 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 Shareholders' Meetings and make informed decisions, by taking 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 independent Board members, representatives of the Revision Commission and the External Auditor at the Annual General Shareholders' Meetings;

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

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

6. OMZ voluntarily expands the rights of shareholders owning 5% or more of the Company's voting stock by entitling such shareholders to summon a meeting of the Board of Directors to review one or several of the following crucial corporate issues: priority directions in the company development; putting to vote the issues of company reorganization, liquidation, share split and consolidation at the General Shareholders' Meeting.

7. OMZ introduced the position of Corporate Secretary, whose key role 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 relating to the Corporate Secretary are set out in the Bylaw on the Corporate Secretary.

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 the General Shareholders' Meetings.

9. OMZ expects that all shareholders recognize their responsibilities before each other, the Company, its management and other stakeholders for the long-term 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's operation. In this regard, OMZ expects that such shareholders will:

- recognize their ownership of OMZ shares and disclose information about affiliated parties;
- refrain from using insider information, including refraining from insider trading of OMZ shares based on such information;
- refrain from applying pressure on the Board of Director and the executive management in order to promote their own interests at the expense of other stakeholders;
- elect a Board of Directors in line with the present Code of Corporate Conduct, including election of the necessary number of independent directors and election of directors with the necessary experience and skills to ensure the effective work of the Board of Directors and its Committees.

OMZ Board of Directors

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

The main role of OMZ's Board of Directors is strategic governance of the Company, control over its operations, risk management and legal and other compliance.

OMZ's 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 Bylaw on 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, a Compensation Committee and an Audit Committee of OMZ's Board of Directors are created. These committees are fully and solely accountable to the Board of Directors. Detailed objectives, duties and procedures of each committee are set out in the respective Bylaws, which are approved by the Board of Directors and are binding for all departments and officials of the Company and its subsidiaries.

The number of seats in the Board of Directors must ensure an efficient Board performance and fair representation of various shareholder groups. Such number shall be at least 7, and is subject to approval by the General Shareholders' Meeting.

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

An executive director of the Board is considered to be the Chief Executive officer and/or a member of the collegial executive bodies of the Company.

A non-executive director of the Board is considered to be a director who is neither the Chief Executive officer nor a member of the collegial executive bodies of the Company.

An independent director of the Board is considered to be a director who:

- is not an executive of another entity where an executive of the Company is a member of the Compensation Committee of the Board of Directors of that entity;
- has not been a member during the last 3 years and is not, at the time of his election, an official or employee of the Company;
- is not an official or employee of the Company's affiliated entities;
- is not a person who is affiliated with an affiliated entity of the Company;
- is not an official or employee of the Company's partner or contractor, with which the total amount of transactions exceeds 5% of the total sales of the Company and its affiliated entities;
- is not an affiliated entity of the Company's partner or contractor, with which the total amount of transactions exceeds 5% of the total sales of the Company and its affiliated entities;
- does not receive income from the Company, except for remuneration for participation in 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 debt and debt securities;
- 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 executive bodies of the Company and/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.

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's Board of Directors shall include at least 3 independent members, but not less than one quarter of the total number of members. A director who has served on the Company's Board for five years as an independent director cannot be considered independent any longer.

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 summon an EGM to elect a new Board of Directors.

The company discloses information about its independent directors in its Annual Report as well as on the Company's web site.

Upon the Board of Directors approving the list of candidates to the Company's Board, every candidate to the Board of Directors should sign a declaration, confirming his (her) director status as 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 alerting the Corporate Secretary to any changes relating to the information in the Declaration. The Declaration also includes a non-disclosure provision relating to insider and confidential information. In the event the candidate refuses to sign such declaration, the Company informs its shareholders of his refusal and the candidate cannot be recognized as independent.

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

- determining the priority directions of the Company's development;
- decision to convene or refuse to convene an extraordinary general meeting;
- putting to vote proposals about the reorganization or liquidation of the Company, about share splits and consolidation at the General Shareholders' Meeting .

OMZ Executive Management

The company's day-to-day operations are managed by the Chief Executive Officer (General Director) and the Executive Board (a collegial executive body). The CEO and the

Executive Board are responsible for the implementation of the Company's mission, strategy and policies. They are accountable to the Board of Directors and the General Shareholders' Meeting.

The appointment and early termination of the powers of the CEO and the members of the Executive Board are within the competence of the Board of Directors.

The CEO is appointed by the Board of Directors for a period of 1 year. The rights and responsibilities of the CEO, as well as the amount and terms of his/her remuneration are outlined in a contract signed by the CEO with the Company. The CEO has no right to vote on matters concerning his contract.

A contract is signed with each Executive Board member for a period of 1 year. The contract is signed by the Chairman of the Board of Directors or another person authorized by the Board, on behalf of the Company.

The main terms of the contract with the CEO and the members of the Executive Board are worked out by the Compensation Committee.

The Chief Executive Officer cannot be a stakeholder, an official or an employee of a competitor of the Company.

The members of the Executive Board cannot be stakeholders of entities that own a share in the Company or in competitors of the Company; cannot be employed by such entities or entities which do not own a share in the Company but which use the Company's production capacities and capabilities, unless they have been granted a permission by the Board of Directors.

The participation of the CEO and the members of the Executive Board in management bodies of other entities is subject to approval by the Board of Directors.

OMZ compensation policy

OMZ implements a fully transparent policy of compensation for the members of the Board of Directors and members of the executive management, based upon best corporate governance principles.

The compensation of the OMZ Board members is determined by the Bylaw on the Remuneration of Board members, developed by the Compensation Committee and subject to approval annually by the General Shareholders' Meeting. The amount, structure and terms of the Directors' compensation provide a fair, reasonable and adequate remuneration for the time, efforts and responsibilities associated with the Board membership.

OMZ implements a modern and comprehensive compensation policy for its executive management, with a Stock Option Plan as a core element of this system. The compensation policy is aimed at aligning the interests of the Company management with those of 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 the Compensation Committee.

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

Board of Directors, Executive Board and CEO responsibilities

The OMZ Board members, the members of the Executive Board and the CEO are liable to the Company for losses incurred as a result of their actions (or failure to act), as well as for other liabilities as determined by the Federal Law.

OMZ will take measures to terminate the powers of the Board members, the members of the Executive Board and/or the CEO guilty of causing loss to the Company and to hold them liable for violation of their obligations before the Company.

The Company makes provisions for Directors' and Officers' Liability Insurance.

Audit

Being an open and transparent internationally traded company, OMZ prepares its financial statements according to International Financial Reporting Standards (IFRS).

In order to ensure maximum objectivity and accuracy of its financial statements, the Company uses the services of a reputable and experienced independent audit company amongst the large international audit companies. The selection process and appointment of the auditor is coordinated by the Audit Committee of the Board of Directors.

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

Information Disclosure

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

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

Key principles of OMZ's information disclosure policy are regularity and timeliness of the disclosure of material facts and developments in the Company, making such information easily accessible to shareholders and other interested parties. For these purposes, the Company extensively uses modern communication means, including Internet web sites in the Russian and English languages. OMZ ensures the accuracy and completeness of the information disclosed, while seeking to maintain a reasonable balance between the openness of the Company and the protection of its commercial interests.

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

Concluding provisions

The present Code came into force on 19 December 2002, when it was approved by the Board of Directors of the Company.

Changes and additions to this Code are subject to approval by the Board of Directors of OMZ.

The current version of the Code was approved by the Board of Directors on 16 November 2004.