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**Analysis of RAO UES of Russia Corporate Governance
Status and its Compliance with Russian and
International Standards**

Moscow, 2007

Investor Protection Association: Alfa Bank, Aton Capital, Vash Finansovy Popechitel (Your Financial Trustee), Vostok Nafta Investment, Dart Management, Deutsche Bank AG, East Capital Asset Management, Metropol Investment Financial Company, Kazimir Partners, CIT Finance, United Financial Group, United Heavy Machinery, PIOGLOBAL Asset Management, Industrial Investors, Prosperity Capital Management, Renaissance Brokers, SUN Capital Partners, Templeton Asset Management, MC Troika Dialog Asset Management, MC UralSib, MC Trustco, Philip Morris Sales and Marketing, FIM Financial services, Equinox Finance Management, NCH Advisors, Hermitage Capital Management, and IC Russ-Invest.

Subject, Principles, and Goal of Analysis, Assumptions and Reservations

According to the technical assignment to prepare an opinion about the quality of the RAO UES of Russia corporate governance and its compliance with the Russian and international corporate governance standards, API experts have analyzed the current status of the RAO UES of Russia corporate governance and present this report.

While preparing this report, we purported to present investors the actual status and efficiency of the Holding Company's corporate mechanisms and the relevant changes in their development with due account for the reorganization process. In this connection, with regard to the subsidiaries and dependent companies of RAO UES of Russia, we proceeded from the assumption that such SDCs will become independent (private) entities in accordance with the reorganization plan. Accordingly, we paid special attention to the mechanisms and institutions ensuring observation of investor rights, including SDC internal control systems, informational transparency, Boards of Directors' and Committees' performance, and SDC management processes.

Our work included surveys of the following internal documents of RAO UES of Russia and its SDCs:

- Charter of Unified Energy System of Russia (UESR);
- Regulations for the General Meeting of Shareholders of RAO UES of Russia;
- Regulations for the Board of Directors of RAO UES of Russia;
- Regulations for Remunerations Paid to Members of the RAO UESR Board of Directors for Exercising their Functions and Compensations of Expenses Related to Such Functions;
- Regulations for Operating Procedures of the Internal Audit Commission of RAO UES of Russia;
- Regulations for Remunerations Paid to Members of the Internal Audit Commission of RAO UES of Russia;
- Regulations for the Management Board of RAO UES of Russia;
- Regulations for the Internal Control Procedures of RAO UES of Russia;
- Regulations for Information Policy of RAO UES OF Russia;
- Corporate Governance Code of RAO UES of Russia;
- Regulations for the Strategy and Reforming Committee under the Board of Directors of RAO UES of Russia;
- Regulations for the Appraisal Committee under the Board of Directors of RAO UES of Russia;
- Regulations for the Audit Committee under the Board of Directors of RAO UES of Russia;
- Regulations for the Internal Audit Department under the Corporate Center of RAO UES of Russia;

- Regulations for Interaction between the Audit Committee under the Board of Directors of RAO UES of Russia and the Internal Audit Department;
- Regulations for the Personnel and Remuneration Committee under the Board of Directors of RAO UES of Russia;
- Regulations for the Commission for Investment and Fuel Supply for Investment Projects under The Board of Directors of RAO UES of Russia;
- Procedure for Interaction between RAO UES of Russia and Business Entities in which RAO UES OF Russia Owns Shares (Stakes);
- Order No. of July 4, 2005 "On Amendment of RAO UES of Russia Order No. 200 of April 28, 2004, 'On Corporate Structure of RAO UES of Russia';"
- Standards for Sale of Non-Core Assets Owned by RAO UES of Russia and Subsidiaries and Dependent Companies of RAO UES of Russia;
- Conditions for the Top Managers and Employees of the Companies That Are Part of RAO UES of Russia Holding Company to Enter into and Implement Share Acquisition Plans;
- Regulations for RAO UESR Representatives in the Management Bodies of Subsidiaries and Dependent Companies;
- Standards for the RAO UESR Subdivisions to Form and Present Positions and Instructions to RAO UESR Representatives Participating in General Meetings of Shareholders and Meetings of the Boards of Directors of Subsidiaries and Dependent Companies;
- Standards for Forming Lists of Persons Nominated by RAO UES of Russia for Election to the Boards of Directors of the Subsidiaries and Dependent Companies of RAO UES of Russia;
- Standards for Forming Lists of Persons Nominated by RAO UES of Russia for Election to the Internal Audit Commission of the Subsidiaries and Dependent Companies of RAO UES of Russia;
- Amendments to the Standards for Forming Lists of Persons Nominated by RAO UES of Russia for Election to the Internal Audit Commission of the Subsidiaries and Dependent Companies of RAO UES of Russia;
- Standards for Interaction between RAO UES of Russia and FGC UES for Issues Related to the FGC UES Corporate Governance on the Part of RAO UES of Russia;
- Standards for the HydroOGK Corporate Governance on the Part of RAO UES of Russia;
- Regulations for Corporate Interaction with SO – CDA UES;
- Standards for Corporate Governance of the Subsidiaries and Dependent Companies of the Company;
- Amendments to Standards for Corporate Governance of the Subsidiaries and Dependent Companies of the Company;

- Order No. 699 of October 6, 2006, "On Establishment of the Committee under the Management Board of RAO UES of Russia;"
- Regulations for the Committee under the Management Board of RAO UES of Russia for Development, Approval, and Amendment of the Company's Standards, Issues Related to Operations of the SDCs of RAO UES of Russia, and Systemic Issues Related to Operations of the SDCs of RAO UES of Russia;
- Order No. 227 of April 5, 2007, "On Approving Members of the Committee under the Management Board of RAO UES of Russia;"
- Minutes of the February 16, 2007, *Meeting on Approval of the Draft Standard Regulations for the Department for Internal Audit of the Subsidiaries and Dependent Companies of RAO UES of Russia* held by Ya. M. Urinson, Deputy Chairman of the Management Board of RAO UES of Russia;
- Draft Standard Regulations for the Department for Internal Audit of the Subsidiaries and Dependent Companies of RAO UES of Russia.

The expert opinion was also formed on the basis of personal meeting with officers and employees of the Company, minority and strategic shareholders, and sectorial analysts. We also took into consideration opinions of independent directors who are experienced in working for the Boards of Directors and Internal Audit Commissions of RAO UES of Russia and its subsidiaries and dependent companies.

While preparing this report, we did not take into account the fact that the controlling shareholder of RAO UES of Russia is the Government for cases other than those when the Government representatives' directive voting directly affected final decisions.

In forming our opinion, we used such evaluatory words as "negative," "neutral," and "positive."

The final section contains conclusions and summaries for each line of the corporate governance, and recommendations regarding improving the corporate governance.

With due account for the above-mentioned, the report is structured as follows:

1. Informational Transparency.
2. Corporate Governance Structure. Observation of Shareholder Rights and Legal Interests, Mechanisms for Their Implementation.
3. Internal Control and Audit Process.
4. Management of Subsidiaries and Dependent Companies.
5. Conclusions and Recommendations.

Informational Transparency

The rules of and approaches to the disclosure of information, the procedure and deadlines for its disclosure and submittal, and the list of data and documents to be disclosed to all interested parties are provided for in the Regulations for Information Policy of RAO UES of Russia.

Upon the whole, the information policy principles set forth in the Regulations are indicative of the RAO UESR management's desire to create a truly efficient information disclosure system and ensure a high level of informational transparency. The Regulations are composed with progressive standards for information disclosure in mind and with due account for the interests of various interested parties, including stockholders, potential investors, creditors, and counterparties. The considerable extent of voluntarily disclosed information undoubtedly contributes to higher confidence on the part of shareholders, especially so amidst the industry restructuring, and affects positively the entire Holding Company's capitalization and its capacity to raise funds in the capital markets on more favorable terms. We also positively evaluate the measures taken to ensure equal access to information for all interested parties and, in particular, and ensure rights and interests of foreign shareholders and investors by disclosing information in English.

The corporate website of RAO UES of Russia, in our opinion, provides in detail all essential information on the Holding Company's operating activity and the stages of its restructuring. The main internal documents of the Company are also available on the website.

Financial Statements

In addition, the website presents quarterly and annual financial information (about the Group and the Company) in accordance with IFRS, as well as annual reports in accordance with RAS.

Corporate Governance Structure. Observation of Shareholder Rights and Legal Interests, Mechanisms for Their Implementation

As of today, through joint efforts of the RAO UES of Russia management, governmental agencies, and minority and strategic investors, a unique corporate decision-making system, which in our opinion is second to none in Russia, has been created.

The elements of this system may be considered under three groups:

- Management bodies of RAO UES of Russia and its SDCs, whose establishment is provided for in the Federal Law "On Joint-Stock Companies:" General Meeting of Shareholders, Board of Directors, executive bodies (collegial and sole executive bodies), and Internal Audit Commission.
- Internal corporate management bodies established by the RAO UESR management in the course of the restructuring to support the process and carry out current operations of the Holding Company: Corporate Center, Reform Management Center, core business (Business Unit No. 1, Business Unit No. 2, GRIDS Business Unit, HYDRO GENERATION Business Unit, SERVICE Business Unit).
- Corporate consultative bodies established in RAO UES of Russia and its SDCs jointly and with participation of Government representatives, minority shareholders, strategic investors, independent directors, independent experts, and regulators:
 - Strategy and Reforming Committee under the Board of Directors of RAO UES of Russia;
 - Audit Committee under the Board of Directors of RAO UES of Russia;
 - Appraisal Committee under the Board of Directors of RAO UES of Russia;
 - Personnel and Remuneration Committee under the Board of Directors of

- RAO UES of Russia;
- Commission for Investment and Fuel Supply for Investment Projects under the Board of Directors of RAO UES of Russia;
- Core Committees under the Boards of Directors of SDCs.

Group No. 1

General Meeting of Shareholders

The competence of the General Meeting of Shareholders, shareholder rights, and the procedure for holding General Meetings of Shareholders are determined in accordance with the Federal Law "On Joint-Stock Companies," the Charter of Unified Energy System of Russia, and the Regulations for the General Meeting of Shareholders of RAO UES of Russia. In accordance with the Charter of Unified Energy System of Russia, the term for publishing notices regarding holding General Meetings of Shareholders has been extended from 20 days (in accordance with Article 52 of Paragraph 1 of the Federal Law "On Joint-Stock Companies") to 30 days. The increased term for publishing notices of forthcoming General Meetings of Shareholders positively affects the procedure for holding General Meetings of Shareholders, as the extended time lag enables as many shareholders (including foreign ones) as possible to obtain information about forthcoming meetings of shareholders.

The convenient and efficient terms for publishing notices of forthcoming General Meetings of Shareholders Convenient, among other things, accounts for invariably very high quorums reached at General Meetings of Shareholders. The shareholder participation in General Meetings of Shareholders averages at least 85-90%. Accordingly, it should be noted that all shareholders of RAO UES of Russia are well informed about and highly interested in holding and participating in General Meetings of Shareholders.

The competence of the General Meeting of Shareholders set forth in the Charter of Unified Energy System of Russia complies with the Regulations of the effective laws of the Russian Federation. The Regulations for the General Meeting of Shareholders of RAO UES of Russia specifies in sufficient detail the procedures for holding shareholder meetings and provided for guaranteed participation of all shareholders in such meetings.

The shareholder equity structure is posted on the official website of RAO UES of Russia and complies with the legal requirements. Besides the Government's stake, the website provides information about nominee shareholders who hold stakes of at least 5% of the authorized capital.

Board of Directors

The Board of Directors comprises 15 members. Seven BOD members are direct representatives of the Government, 2 are, traditionally, members of the Company's management, 3 members are representatives of minority shareholders (strategic investors), 2 members are former public officers who are actually not affiliated with the Government or RAO UES of Russia, and 1 member has for many years been a representative of the Investor Protection Association.

In fact, the principal shareholder represented by the Government dominates the Board of Directors, as the Chairman of the Board of Directors, although he is not a public officer at present, said repeatedly in public that he represented solely the Government's interests in the Board of Directors.

Accordingly, one can state that, with due account for the representatives of minority shareholders in it, the Board of Directors complies with the established corporate property structure and takes into account the interests of all main categories of shareholders. It should

be noted that the independent director representing the Investor Protection Association, in contrast to the established Western practices where companies invite independent directors by whose votes majority shareholders are elected, is elected to the Board of Directors of RAO UES of Russia solely by cumulative votes of portfolio investors, both foreign and Russian. Undoubtedly, rather positively affects the independence of nominees and the structural composition of the Board of Directors.

Most positions in the Board of Directors are distributed in line with the BOD members' functional affiliation according to the positions held by them in government institutions or in companies owned by strategic investors. Consequently, the established structure makes it possible to quite efficiently coordinate the positions of relevant ministries, the Company management, and strategic and portfolio investors. A special note should be made of the directive nature of voting by Government representatives at all meetings of the Board of Directors. The directive method prevents from flexibility in solving non-standard issues on agendas of Board of Directors meetings. Directives are given on a limited number of issues. However, as follows from our reservation and taking into account the privatization history and the specificity of RAO UES of Russia as a natural monopoly entity, this fact cannot be considered to be discrediting in the context of this report.

Pursuant to the Regulations for the Board of Directors of RAO UES of Russia, meetings of the Board of Directors are chiefly held on a regular basis in person, which enables directors who are representatives of minority shareholders, the management, and the independent directors, among others, to express their opinions directly at meetings in the voting process and, accordingly, have an opportunity to influence, by substantiating their positions and opinions, other members of the Board of Directors.

The main debates on issues related to the competence of the Board of Directors of RAO UES of Russia are held in the core committees and commissions under the Board of Directors of the Company. This group will be reviewed in detail below, in accordance with the above-mentioned elements of the corporate management bodies system. A special emphasis should be made of the fact that the established at this level system for making decisions and coordinating ones with all interested parties and shareholders affects positively the activity of the Board of Directors of RAO UES of Russia and the Company's corporate governance on the whole. Indeed, this system of committees and commissions is unique for the Russian practice and may well serve as an indisputable benchmark in developing efficient corporate governance practices. In their work with Svyazinvest, another stated-owned holding company, IPA experts already make references to the system established by RAO UES of Russia.

Remunerations for the Board of Directors

The system of remunerations for the Board of Directors makes it possible to determine top priorities in the activity of the Board of Directors members and evaluate their efficiency. Thus, the efficiency of activity of members of the Board of Directors of RAO UES of Russia is mainly determined on the basis of the number of attended meetings (participation in the work) of the Board of Directors, the amount of net profit made by the Company, and the increase in capitalization of the ordinary shares in the Company.

From the viewpoint of the shareholders of RAO UES of Russia, the most significant indicator of efficiency of the Board of Directors elected by them is the absolute growth of weighted average value of all ordinary shares as determined according to the data of RUSSIAN TRADING SYSTEM Stock Exchange, as the amount of net profit made by the Company without considering dividends paid to shareholders does not directly affect the shareholders' financial interests.

The parameter of remuneration payment as a percentage of the Company's net profit in accordance with the Russian Accounting Standards has both positive points and several

drawbacks. Firstly, the RAS and tax laws allow variations of this indicator one way or another without changing, in some cases, the objective financial situation of the Company (especially in the short-term and medium-term perspectives). Secondly, in the event of arguable, in the shareholders' opinion, asset sales and, accordingly, a one-time growth of net profit, unmotivated growth of remunerations for the Board of Directors members occurs, which may aggravate conflict situations. It should also be noted that foreign shareholders and analysts are not familiar with the notion "net profit in accordance with RAS," which fact was repeatedly reported by leading rating agencies (e.g., Standard & Poor's).

In our opinion, the bonus for increased capitalization of the Company featuring in the motivation system is a positive solution, while the fixed maximum amount of this bonus prevents the Company from paying substantial, from the viewpoint of shareholders, remunerations to the Board of Directors members.

In this connection, in our opinion, the fixed rate of remunerations for the Board of Directors members for their participation in meetings held with voting in person and absentee voting is unjustifiably underrated.

A special note should be made of the fact that at least a half of the RAO UESR Board of Directors members are not engaged in the motivation system due to their governmental service positions. But for the Company itself this factor is purely external, established by laws, and does not depend on the Company management.

Internal Audit Commission

In our opinion, the role of internal audit commissions is traditionally underrated in the Russian corporate governance practice by the managements of Russian companies and their shareholders. Pursuant to the Federal Law "On Joint-Stock Companies," the Internal Audit Commission is vested with substantial powers in terms of control over financial and economic activities of the Company. However, considering the specific nature of electing (by a majority of votes, accordingly, through votes of the majority shareholder) this supervision and auditing body, minority shareholders, without the support from the majority shareholder, cannot use this highly potent control instrument. Unfortunately, the Internal Audit Commission of RAO UES of Russia Holding Company is no exception. The Internal Audit Commission features no independent members, the regularity of inspections (meetings), in our opinion, is insufficient for efficient performance, while the remuneration system does not ensure proper motivation for members of the Internal Audit Commission.

It should be noted that the Holding Company itself, specifically several SDCs of RAO UES of Russia, has positive precedents for the presence of independent members of internal audit commissions and representatives of strategic investors, which undoubtedly produces a highly positive effect upon this body's transparency for minority shareholders and investors. For instance, the internal audit commissions of SO – CDA UES and FGC have for several years featured, among other members, representatives of the Investor Protection Association, however, the motivation system and the work load of most members of the Internal Audit Commission affected rather negatively than positively the efficiency of this body.

Executive Bodies

The supreme sole executive body of RAO UES of Russia is the Chairman of the Management Board of the Company, whose competence includes all issuer related to the Company's current operation. In accordance with the Charter of the Company, the Chairman of the Management Board exercise extensive rights in such key areas as asset management, appointment and dismissal of top and middle managers (including the formation of the Management Board), issuance of orders, approval of instructions and internal documents regarding all key areas of the Company's activity. Such shift of balance in executive bodies from the Management Board to the Chairman of the Management Board is not quite common for the management practice of Russian public management joint-stock companies. However, with due account for the uniqueness of such natural monopolist as RAO UES of Russia, the

efficiency of its reforms and the role of the current Chairman of the Management Board in their implementation at the political level, we consider the concentration of power of the Chairman of the Management Board to be a positive factor. The collegial executive body of RAO UES of Russia is the Management Board. In accordance with the Regulations for the Management Board of RAO UES of Russia, the Chairman of the Management Board and members of the Management Board of the Company are part of the Company's executive staff. The Management Board's competence includes, among other things, development of high priority lines of the Company's operations and long-term plans for their implementation and their submittal for approval to the Board of Directors, and strategic control over the SDCs of RAO UES of Russia. The Management Board members are also in charge of relevant internal corporate institutions (see *Internal Corporate Management Bodies*).

Group No. 2

Structural Element of the Management System

For the purpose of improving the activity of RAO UES of Russia, ensuring operational efficiency of the entire Holding Company and control over the reform implementation, the RAO UESR management created the following institutions: Corporate Center, Reform Management Center, and core Business Units (Business Unit No. 1, Business Unit No. 2, GRIDS Business Unit, SERVICE Business Unit, HYDRO GENERATION Business Unit) headed by members of the RAO UESR Management Board.

The powers, responsibilities, and goals of the directors of these bodies are regulated on the basis of the Internal Order of the Chairman of the Management Board of the Company. In accordance with the Order, the competence of the above-mentioned bodies in the field of corporate governance is as follows:

Corporate Center

The Corporate Center's competence includes development of standards, methods, regulations, and other order documents of the Company's subdivisions and SDCs, control over their implementation, and development of proposals regarding their improvement; development of proposals and packages of measures toward improving the activity of the Company and its SDCs; arrangements related to making comparative analyses of SDC operations; arrangements related to making amendments to the Charter and local regulatory documents of the Company, participation in the formation of SDC Boards of Directors, etc.

Reform Management Center

The Reform Management Center is responsible for interaction with legislative and executive bodies; development of draft regulatory and legal documents related to the industry reform; development of methodology for the restructuring of the Company and its SDCs; development of proposals regarding improving the corporate governance standards of the Company and their submission to the Corporate Center; participation in the management of SDCs within its competence; participation in the formation of SDC Boards of Directors, etc.

Core Business Units (Business Unit No. 1, Business Unit No. 2, GRIDS Business Unit, HYDRO GENERATION Business Unit, SERVICE Business Unit)

The Business Units' functions include development of proposals regarding improving the corporate governance standards of the Company and their submission to the Corporate Center; arrangements related to the implementation of corporate governance standards and methods in the Business Units and their subordinate SDCs; arrangements related to taking corporate measures to amend the Articles of Association and local regulatory documents of their subordinate SDCs; interaction with the shareholders of subordinate SDCs; organization of operations and control in accordance with the standards and order documents of the Company and representatives of the Company in the Boards of Directors of subordinate

SDCs; participation in the formation of the Boards of Directors of subordinate SDCs, etc. A special notice should be made of the fact that the Business Units have extended powers in the operating management of SDCs, which is of prime importance to the minority shareholders of thermal, hydrogenation, and grid companies.

Based on the analysis of their powers, the above-mentioned bodies have similar and complementing competences for many issues. The main common competences involve the methodology and development of corporate governance standards, participation in SDC management, which among other things includes determination of the Company's positions, and participation in the formation (nomination and election) of SDC Boards of Directors.

Accordingly, the Company created a sort of "checks and balances" system based, among other things, on principles of competition, distribution of spheres of influence, and personal responsibility of directors, which system, in our opinion, is quite efficient in distributing responsibilities and powers in terms of lines of activity.

Group No. 3

Committees and Commissions under the Board of Directors of RAO UES of Russia

This Group occupies a special position in the Holding Company's system of corporate management bodies, as it meets the best corporate governance standards in terms of the Holding Company's openness to all shareholders of RAO UES of Russia (both strategic and portfolio investors) with regard to the most important decisions made by the Board of Directors.

The Committees and Commissions under the Board of Directors includes the representatives of the Government, RAO UESR management, strategic and portfolio investors, and independent experts (including independent IPA experts) invited as nonvoting members and experts. It should be noted that these committees' resolutions are recommendatory for the Board of Directors of the Holding Company, however, it is not uncommon that, in the event of negative resolutions, such issues are dismissed from the consideration by the Board of Directors to be further developed.

Strategy and Reforming Committee

This is the most important advisory corporate body in terms of the reforms implemented.

It is within the scope of the Committee's competence to analyze proposals and provide recommendations to the Board of Directors of RAO UES of Russia for issues relating to the development and implementation of the Holding Company's strategy. Accordingly, all revenue-intensive transactions submitted for the consideration of the Board of Directors of the Company are reviewed at meetings of the Strategy and Reforming Committee. The Head of the Committee is David Herne, a representative of a minority shareholder of the Holding Company. Most voting members of the Committee are not affiliated with RAO UES of Russia. Accordingly, the mechanism for independence from the management and the majority shareholder is ensured in the Committee's decision-making. Undoubtedly, such composition of the Committee and the existing possibility for its members and experts to bring their opinions to the attention of the Board of Directors of the Holding Company positively affects the Company's level of corporate governance. The Minutes of the Committee's meetings are readily available on the corporate website of RAO UES of Russia, which is a positive factor with regard to the informational transparency of the Committee's activity.

The Committee operates on a regular basis, with meetings held, as a rule, in person. The periodicity of the Committee's meetings can be evaluated as high.

Personnel and Remuneration Committee

All members of this Committee are independent directors, representatives of strategic investors in the Board of Directors of RAO UES of Russia. In accordance with the Regulations for the Personnel and Remuneration Committee of the Board of Directors of RAO UES of Russia, the Committee's competence includes issues relating to the development of principles and criteria for remuneration of the members of the Board of Directors, Internal Audit Commission, and Management Board of the Holding Company, as well as determination of material conditions of agreements with the members of the collegial and sole executive bodies, and regulate evaluation of their performance.

In our opinion, according to the best corporate governance practices, the following issues should be included in the Committee's competence:

- development of recommendations for the Board of Directors with regard to determining criteria for selection of nominees to the Management Board of RAO UES of Russia;
- preliminary evaluation of nominees to the Management Board of RAO UES of Russia;
- development of recommendations for the Board of Directors regarding approving appointments of the heads and members of the collegial executive bodies of Federal Grid Company and the System Operator;
- development of criteria and a system for evaluation of performance of the Chairman and members of the Management Board of RAO UES of Russia.

Appraisal Committee under the Board of Directors of RAO UES of Russia

The common corporate governance practice does not presuppose the creation of similar committees, but, in our opinion, considering the specific features of the Holding Company's activity under the reform, the formation of the Committee responsible for methods for evaluating all assets of RAO UES of Russia, evaluating those assets that are subject to the consideration by the Board of Directors, as well as drawing up and monitoring lists of accredited (authorized) appraisers, looks reasonable, relevant, and opportune. The availability of the standing Committee, whose members include members of the Board of Directors of RAO UES of Russia and their representatives, professional appraisers, representatives of strategic and portfolio investors, independent experts, positively affects the restructuring process, principles of making important strategic decisions, and corporate governance on the whole. As a rule, when evaluation reports are not approved by the Committee, the issues related to such reports are dismissed from consideration by the Board of Directors of the Holding Company. The Committee is headed by Ilya Arturovich Yuzhanov, a member of the Board of Directors of RAO UES of Russia.

Audit Committee under the Board of Directors of RAO UES of Russia

The targets and objectives of the Audit Committee are to render assistance to the Board of Directors of the Company in supervision over the Company's systems of internal accounting and financial control and the Company's internal audit service; supervision over independent audits of the Company's financial statements; supervision over the preparation of accounts by the Company's executive bodies; supervision over the Company's systems of control and over compliance with applicable laws and regulations, and selection of external auditors.

The Audit Committee is headed by independent director Seppo Remes. All members of the Committee are directors who are not affiliated with the majority shareholder. With regard to the Committee's composition, all requirements of regulators are met, and the principles of the Committee formation comply with generally accepted international corporate governance standards.

Commission for Investment and Fuel Supply for Investment Projects under the Board of Directors of RAO UES of Russia

In the course of implementation of the large-scale long-term investment program of the entire

Holding Company, the Board of Directors RAO UES of Russia resolved to establish the Commission, whose main objective is to review and evaluate feasibility of the investment projects of SDCs of RAO UES of Russia. Traditionally, the Commission comprises representatives of strategic and portfolio investors, the Government, the Holding Company management, and independent experts. The Commission was established relatively recently (in late 2006), when especially acute was the issue of investment priorities of SDCs with due account for future financial receipts, including those from IPO, and the future of such projects after the completion of the restructuring process. This Commission is undoubtedly important for supervising the development of investment projects and for pursuing the Holding Company's common coordinated policy for fuel supply and new capacity.

Internal Control and Audit Process

The current internal control system of the Holding Company is ensured by the functioning of the following bodies:

Audit Committee under the Board of Directors of RAO UES of Russia

The Committee's targets and objectives feature in the relevant section above. In accordance with the Regulations for the Committee, Regulations for the Audit Committee's Interaction with the management bodies of RAO UES of Russia and its SDCs, the Audit Committee is vested with quite extensive powers, however, notwithstanding the activity of the Committee's Chairman and the mechanisms for exercising his powers, the Committee is faced with problems while performing its functions. For instance, several requests submitted by the Committee Chairman to the Holding Company management were declined or ignored. To date, effective joint work with the management have been done toward eliminating the above-mentioned fact, while the procedure for submission of information is distinctly set forth in the internal documents of the Holding Company.

Internal Audit Department of the Corporate Center of RAO UES of Russia

The Department's main objectives are to exercise efficient control over the financial and economic activity of the Company and its subsidiaries and dependent companies, analyze audit data, prepare recommendations to the Company management regarding taking relevant measure toward improving business efficiency, carry out efficient interaction with external auditors in the course of audits of the financial and economic activity of the Company and its subsidiaries and dependent companies.

In practice, the Internal Audit Department is, in essence, a supervision and audit department, whose main objective is to review the financial and economic activity of SDCs through participation in SDC internal audit commissions, which work, in our opinion, is performed very efficiently from the viewpoint of the majority shareholder, i.e., RAO UES of Russia.

Center for Financial and Corporate Control (CFCC) of RAO UES of Russia

The CFCC's purpose is to make systemic analyses of efficiency and improve internal control mechanisms of the Company and its SDCs, develop internal control methods, prepare recommendations and proposals aimed at enhancing the efficiency of business processes, timely identification and prevention of risks related to the financial and economic activity of the Company and its SDCs.

The Center for Financial and Corporate Control (CFCC) of RAO UES of Russia is vested with significant powers in terms of development, improvement, and implementation of internal control mechanisms and in the area of risk forecasting methods.

Administratively, the Internal Audit Department and CFCC are subordinate directly to the

executive body of the Company, the Management Board represented by the Deputy Chairman of the Management Board of RAO UES of Russia.

The services exercising internal audit functions are appointed and controlled by and subordinate to executive bodies of the Company, which may affect their objectivity, independence, and contradicts generally accepted international corporate governance standards. Moreover, there is a lack of mutual understanding among the Audit Committee and core executive bodies with regard to issues relating to submission of audit information. As a result of this, the Audit Committee under the Board of Directors, notwithstanding its extensive powers, may potentially be deprived of an instant access to information about detected risks or ones that are potentially hazardous to the Company's activity, violations related to tax and business accounting, irrational use of the Company's assets, etc.

Management of Subsidiaries and Dependent Companies

The corporate governance of RAO UESR SDCs is carried out through the system of decision-making and control bodies in accordance with the Company's interests:

- Board of Directors RAO UES of Russia;
- Committees and Commissions under the Board of Directors of RAO UES of Russia;
- Management Board of RAO UES of Russia;
- Reform Management Center;
- Corporate Center;
- Core Business Units;
- SDC Boards of Directors;
- Committees under SDC Boards of Directors (if applicable);
- SDC Internal Audit Commissions

SDC Boards of Directors

In accordance with the RAO UESR standards for forming the Boards of Directors of SDCs of the Holding Company, positions are distributed according to the SDC shares held by RAO UES of Russia. It should be noted that the principles set forth in the standards are reasonable and affect the corporate governance system in a positive manner. For instance, the standards profit the possibility of electing at least two independent directors by RAO UESR votes. A special note should be made of the fact that, in accordance with the standards, the independence of specific directors (nominees to Boards of Directors) is determined by the requirements of the Russian laws. Accordingly, this reservation enables the RAO UESR management to elect directors who are independent in terms of the Russian laws, but not independent in the eyes of market participants, to SDC Boards of Directors. Such directors, although they assume independent positions at Board of Directors meetings and do not vote under directives, are not fully independent in the opinions of certain market participants. Accordingly, there is a risk of absence (insufficient number) of independent directors in OGGK/TGK Boards of Directors in terms of international listing requirements for IPOs.

The Corporate Center ensures that independent directors who are listed on the Register of Independent Directors under RSPP (Russian Union of Industrialists and Entrepreneurs) are elected to the SDCs subordinate to Business Units. At present, we can see an undoubtedly

positive practice of electing, through the Holding Company's votes, representatives of minority shareholders, strategic investors, and independent directors on the part of Business Unit No. 1 of RAO UES of Russia. In fact, potential investors and shareholders already have their representatives in, among other companies, TGK/OGK in which 80-90% of shares are still held by RAO UES of Russia. Business Unit No. 1 annually proposes to the Strategy and Reforming Committee under the Board of Directors of RAO UES of Russia two nominees to the Boards of Directors of OGK/TGK that are subordinate to Business Unit No. 1. Besides, representatives of portfolio and strategic investors have been elected with support from RAO UES of Russia to all SDCs (for example, FGC proposed that 2 representatives of minority shareholders or independent directors should be nominated to each Board of Directors of Interregional Distribution Companies formed in accordance with the new configuration). Each Board of Directors of SO – CDA UES, Hydro OGK, and FGC UES also feature independent directors and a representative of a major minority shareholder of RAO UES of Russia and its SDCs. Business Unit No. 2 assumes a somewhat different position with regard to forming Boards of Directors of its subordinate SDCs. At present, according to the representatives of Business Unit No. 2, the OGK/TGK Boards of Directors to a greater extent need directors who can represent corporate interests in current operations and interaction with major fuel suppliers and regulators of various levels. Undoubtedly, this strategy has several positive factors. However, the absence of professional independent directors, including those who enjoy positive reputation in the Western markets, prevents from developing and improving the recently created corporate governance system in compliance with international corporate governance standards. In accordance with the standards for forming and presenting instructions, the representatives of RAO UES of Russia in the Boards of Directors of SDCs vote under directives, which, in terms of efficiency of activity of the Board of Directors as a strategic planning body, is considered to be a rather negative than positive factor. At the same time, however, qualitative changes should be noted in the decision-making system to the effect of shifting from the command-and-control method to the method of constructive dialogs, including those with independent directors and representatives of minority shareholders. To exemplify this, one can mention the periods when the SDC Board of Directors members, employees of RAO UES of Russia, could not vote directly at meetings in any other way than ordered in internal instructions. At present, members of the Boards of Directors of amalgamated SDCs may amend draft resolutions proposed to them. In other words, the practice of actual work of Boards of Directors is under development. In many ways, however, this approach to the work of the Board of Directors is determined, in our opinion, by the personality of the Chairman of the Board of Directors. For instance, on the basis of the IPA representative's experience as a member of the OGK-5 Board of Directors, we can, with full responsibility, state that the OGK-5 Board of Directors is highly efficient. The OGK-5 Board of Directors' activity is also highly evaluated by Standard & Poor's in the corporate governance rating assigned to OGK-5.

Committees under SDC Boards of Directors

At present, several SDCs of RAO UES of Russia, primarily OGKs and TGKs, are quite active in developing systems of committees under their Boards of Directors. We positively evaluate the development of such important instrument in the corporate governance systems of SDCs, however, the current performance of several SDCs is not sufficiently effective, in our opinion. First, it should be noted that such committees do not hold their meetings quite seldom, and it often turns out (based on the experience of representatives of minority shareholders in SDCs) as late as at BOD meetings that the issues under consideration should have first been reviewed by committee members in order to develop their recommendations.

It should also be noted that the regulations for such committees provided for the possibility of paying remunerations to committee members in the event of relevant decisions made by the Board of Directors. Therefore, there is basically no proper motivation for committee members in place.

Moreover, the Committees should have their own budgets providing for, among other things, remunerations for committee members, expenses related to conducting their own independent surveys, and attraction of required specialists. Specifically, the availability of the Audit Committee' own budget is directly connected with the independence of this body from the Company management. The Regulations for Committees under the Board of Directors of SDCs should be further developed in terms of extending the powers in such a way as to make sure that all issues under consideration of the SDC Board of Directors could first be reviewed by the relevant committees. The positive experience of the Committees and Commissions under the Board of Directors of RAO UES of Russia should, in our opinion, be fully used for developing similar system of committees by SDCs.

Many SDCs of the Holding Company, specifically, of the grid companies, have no committees under the Boards of Directors of SDCs, which negatively affects the efficiency and transparency of their corporate governance systems. Such committees are established at the request of active minority shareholders, who, as a rule, are strategic investors having various levers of influence. Accordingly, we quite negatively evaluate the absence of interest on the part of certain executive of RAO UES of Russia in creating a system of committees in SDCs in accordance with international corporate governance practice and on the basis of the positive experience gained by the Holding Company itself.

Remuneration and Motivation

SDC Board of Directors

The remunerations for members of the Boards of Directors of SDCs consists of a fixed salary for their participation in Board of Directors meetings and a variable component based on the growth of the market value of shares in SDCs (if specific SDCs are listed) and the net profit received according to the year results.

The remunerations are differentiated on the basis of participation in Board of Directors meetings held with absentee voting and voting in person. Thus, the holding of meetings with voting in person is stimulated, which, accordingly, enhances the efficiency of the Board of Directors activity.

SDC Management

The remunerations for the company management depend on how quarterly and annual target indicators are met. Several SDCs develop and implement motivation systems based on meeting target indicators set for every manager depending on their areas of activity. Other SDCs, specifically in the generation business (whose companies have gone the IPO procedures or are preparing for one), implement/run option programs for senior managers of SDCs. Based on the pilot IPOs made, option programs are certainly perceived positively by potential investors and existing shareholders. Option programs are also welcomed by the investment banks that ensure and curate placements of securities.

However, in the process of implementation of option programs, it is necessary, first and foremost, to ensure rationality in fixing of prices and terms of implementation of such programs. The prices and implementation terms set under such programs should, in the first place, meet the strategic and long-term interests of the Company and all its shareholders. For example, the program implementation term set by OGK-5 in its IPO process was 3 years and the strike price was fixed in the amount of 90% of the share offering price, which, in our opinion, sounds quite reasonable.

On the other hand, according to our data, some TKGs and OGKs set their strike prices as an average price for the last year or from the listing date (at least 6 months). Accordingly, the prices for TKG/OGK shares have increased 2-3-fold from the listing date, which, in

shareholders' opinions, was primarily due to general positive changes in the sector, but not the good performance of managers of specific TGKs and OGKs. According to the shareholders, it is not fair to reward TGK/OGK managers with the opportunity to obtain shares at prices that are considerably lower than current market ones, with such managers having made no direct contribution.

Internal Control and Audit of SDCs

At present, only a few SDCs have developed their internal control systems in accordance with advanced international and Russian practices. For instance, one of OGKs has established the Internal Audit Department (hereafter "IAD") whose director is subordinate to the Audit Committee under the SDC Board of Directors. The IAD Director is independent of the company management and his appointment was approved by the Audit Committee. The Board of Directors has approved the Regulations for the Internal Control System, Regulations for the Internal Control Division, Regulations for the Interaction with the Internal Control Divisions and the Audit Committee under the Board of Directors. The Audit Committee approves the IAD Plan and, on a quarterly basis, reviews the IAD Director's Report on the Division Performance.

At present, RAO UES of Russia has developed the model Regulations for the Internal Audit Department to be implemented in the Holding Company's SDCs. On the one hand, the Regulations provide for SDC internal control systems, which undoubtedly affects Company's attraction as an investment in a positive way, while, in our opinion, contradicting in several respects the main principles of organizing the internal control system, on the other. In accordance with the Regulations, the IAD Director is subordinate and accountable directly to the SDC Director General. According to the Regulations' provisions, the Audit Committee is entitled to propose its nominee for the IAD Director position, however, the Director General is entitled to appoint one at his/her discretion. The draft Regulations do not make provisions for the Audit Committee under the SDC Board of Directors to promptly receive accounts from the IAD, which bears considerable risks of lack of proper control over the SDC management on the part of the Board of Directors represented by the Audit Committee and shareholders of SDC.

We understand that the implementation of these model Regulations would, no doubt, positively affect the internal audit status of the Holding Company's SDCs. However, we deem it necessary to ensure, on a mandatory basis, maximum independence for the IAD Director from the executive management. It should also be emphasized that the internal control system in SDCs implies the availability and implementation of comprehensive regulations for internal control systems in SDCs, as well as the regulations for interaction among the Audit Committee under the Board of Directors, the Internal Audit Commission, and the Internal Audit Department, with clear-cut provisions regarding the procedure for and composition and timeframe of accounts and cooperation among internal control entities in SDCs.

Audit Process

As mentioned earlier, many SDCs, including quite large companies, have not yet established Audit Committees under the Board of Directors of SDCs. In our opinion, their managements underestimate the opportunity and necessity for creating efficient Committees.

One of the main objectives of the Audit Committee under the Board of Directors is to organize efficient interaction among the Board of Directors represented by the Committee and external auditors, develop criteria and principles for the selection of auditors, and hold independent biddings for the right to enter in the agreement for auditor services. At present, basically all SDCs have no independent procedures for the selection of auditors, which procedures are held for SDCs by RAO UES of Russia. In other words, SDCs are notified of what auditor will provide audit services to them. Consequently, potential pressure on the

independence of the audit process arises. Moreover, SDCs are deprived of an opportunity to offer their terms and conditions for auditor service agreements, which negatively affect, among other things, prices of such services in the absence of due competition. It should be noted that foreign investors are quite particular about the presence/absence of transparent procedures for selecting audit institutions, and further relations among the auditors and the Audit Committee under the Board of Directors.

We evaluate this situation as negative with regard to, primarily, generation companies. In our opinion, regulations for holding biddings for the selection of audit institutions should be developed and implemented on a mandatory basis in those SDCs that are purported to become private entities and that already have the Audit Committees under the Board of Directors. The Committee for Biddings should comprise mainly independent directors (basically members of the Audit Committee under the Board of Directors of SDCs); in this connection, the SDC Chief Accountant may provide all necessary qualified and informational support to members of the Committee for Biddings.

Informational Transparency of SDCs

The efficiency and completeness of SDCs' systems of information disclosure is ambiguous and depends on concrete companies. On the whole, the model Regulations for the Information Policy in SDCs of the Holding Company complies with the principles of openness and transparency of the system of information disclosure. In practice, however, we think that SDCs, for example, do not work hard enough on disclosing information on their official websites. We hope that SDCs will draw from the experience of RAO UES of Russia in terms of creating such a system of information disclosure that would be as transparent, targeted, and useful.

Financial Statements of SDCs

In our opinion, the most serious problem with SDCs is the absence of timely quarterly and annual accounts in accordance with IFRS. We understand how difficult it is to form the financial statements system in accordance with international standards in view of the ongoing restructuring process and establishment of new consolidated companies, however, this factor rather negatively affects the corporate governance systems in SDCs and the raising of capital for the industry. We consider it to be a strategic objective in this line of activity to create a regular and timely system of financial statements in accordance with international standards.

Even though the level of corporate governance varies from SDC to SDC, one can make note of positive tendencies in their corporate governance development, especially in several heat generation companies (OGKs and TGKs), where efficient corporate governance principles are actively developed and implemented along the lines of those applied in the Holding Company.

The grid companies of the SDCs of RAO UES of Russia, however, have some negative factors in the sphere of corporate governance.

For example, some minority shareholders are dissatisfied with the absence of control over cash flows in AO-Energo companies (Regional Grid Companies) due to, in their opinion, the conflict of interest related to the transfer of sole executive body (SEB) functions to the majority shareholder's wholly-owned subsidiary, Interregional Distribution Company (IDC), while IDC is managed by another subsidiary of RAO UES of Russia, FGC UES. In this connection, AO-Energos (RGCs) pay considerable remunerations to IDC (whose amounts often exceed AO-Energos' net profits) for exercising SEB functions; thus, the majority shareholder receives profit from exercising SEB functions and trust management (through FGC), while the minority shareholders of AO-Energos lose a significant amount of their profits. Moreover, SEB cost estimates are extremely non-transparent and unsubstantiated with

due account for the absence of control over expenditure of such funds on the part of shareholders of AO-Energos. At present, agreement for SEB services are dissolved for the purpose of their renegotiation in accordance with the new IDC configuration, however, according to the comments of FGC managers, all agreements will be absolutely identical.

Moreover, Interregional Distribution Companies, using SEB advantages, enter into transactions (that, according to minority shareholders, are de facto interested-party transactions) for amounts reaching 10%-15% of revenues of such companies for provision, through IDCs, of all sorts of consulting, procurement, informational, insurance, and other services, with the minority shareholders of such companies being unable to determine actual costs of such services or proper use of funds received from RGCs.

Accordingly, one can conclude that most complaints on the part of shareholders boil down to current operational management and the transactions already made, relating, for example, to leasing assets owned by Transmission Companies (TCs). According to minority shareholders, TC assets were leased (subleased through IDCs) in violation of laws; as has been repeatedly stated in public, such transactions were de facto interested-party transactions and should have been approved by minority shareholders of AO-Energo companies. Moreover, the lease agreements that were entered into do not provide for dissolution or renegotiation of material conditions by minority shareholders. As a result, TCs receive minimum lease payments (established in 2004 and 2005) from FGC for the use of their property. Respectively, profitabilities from FGC assets and TC assets are different dozen-fold. This model of relations between FGC and TCs deprived the latter from investment resources for key assets renewal and new construction. TCs are exploited through FGC, with TC shareholders being unable to control operational expenses of TCs. FGC retains the profits from saving TC operating costs, as the lease agreements do not provide for any returns of saved costs to TCs.

On the other hand, one should note the approved and accepted for implementation Plan for Reforming Grid Assets (both distribution and main grids), which basically takes into account the interests of most minority shareholders of RAO UES of Russia and SDCs.

On the whole, the investment community positively evaluates the initiatives of the RAO UESR and FGC managements with regard to the new configuration of distribution assets and the relevant transformation of IDCs into integrated operating companies, as well as the reformation of main grids.

Conclusions and Recommendations

In summation of the above-mentioned, we, on the whole, positively evaluate the RAO UESR corporate governance system, owing to the following factors:

- genuine interest in completing the Russia of the Holding Company on the part of all participants of the process: the RAO UES of Russia management, regulators, minority and strategic investors of both RAO UES of Russia and its SDCs;
- availability of a strong management team whose members are interested in the dialog with investors;
- sufficient informational transparency and a considerable amount of voluntarily disclosed information on the part of RAO UES of Russia;
- the composition of the Board of Directors of RAO UES of Russia complies with established priority structure of the Company and represents the interests of all main shareholder categories;
- the Company created a unique corporate decision-making system, which makes it possible to take into account the opinions of at least interested groups, including the operating Committees and Commissions under the Board of Directors of RAO UES of Russia and their qualitative composition;
- high organizational level of the management's work based on, among other things,

competition and mutual control of management centers, with a clear-cut distribution of zones of responsibility among them;

- generally efficient management of SDCs and a high level of control over them;
- transfer from the command-and-control method for managing SDCs (voting under directives) to the establishment of really independent Boards of Directors in several SDCs;
- implementation of progressive corporate governance practices in several SDCs, in terms of, among other things, internal control and audit, and management motivation;
- positive practice of electing, through RAO UESR votes, representatives of minority shareholders, strategic investors, and independent directors to the Boards of Directors of SDCs.

At the same time, we note the following negative factors in the corporate governance systems of RAO UES of Russia and SDCs:

- 1) lack of timely quarterly and annual accounts, prepared in accordance with the International Financial Reporting Standards, in most SDCs;

Recommendations

We consider this line of activity to be strategically important for most SDCs of RAO UES of Russia in the context of raising funds from foreign and Russian investors for the industry. On a mandatory basis, agreements for auditor services should provide for opportune deadlines for submission of reporting in accordance with IFRS, for instance, before Annual General Meetings of Shareholders.

- 2) low efficiency of the Internal Audit Commission of RAO UES of Russia and the lack of transparency in the activity of Internal Audit Commissions of those SDCs of the Holding Company where there are no representatives of minority shareholders or IAC members who are independent of the majority shareholder;

Recommendations

It is essential to ensure due motivation for members of the Internal Audit Commissions of RAO UES of Russia and SDCs, and consider the possibility of electing independent experts to the Internal Audit Commissions of the Holding Company. Participation of external qualified specialists in the Internal Audit Commissions will help to enhance transparency of such bodies for the shareholders and efficiency of audits. It should be noted that several companies of the Holding Company already use the services of representatives of strategic investors, which fact is considered to be highly positive by the investment community.

- 3) lack of internal controls that are objectively and truly management independent at the level of the Holding Company and its SDCs, with the exception of several OGKs and TGKs;

Recommendations

The bodies that are engaged in internal control of the Holding Company and its SDCs on a regular basis should report to the Audit Committee on all essential event and risks affecting the financial and economic activity of the Company. It is necessary to provide for and implement the mechanism for accountability of such bodies to the Audit Committee under the Board of Directors of RAO UES of Russia and the Audit Committees of SDCs, and develop management independent principles and criteria for the coordination with the Audit Committee of appointments/dismissals of directors of core internal control divisions and the evaluation of their performance.

- 4) lack of independent and transparent systems for the selection of audit institutions in SDCs of RAO UES of Russia. In fact, the SDC Boards of Directors recommend SDC shareholder meetings to approval auditors elected on the basis of biddings held by RAO UES of Russia;

Recommendations

In our opinion, for the purpose of ensuring a transparent and independent audit process in SDCs, it is necessary to provide for the creation and organization of Biddings Committees, whose members should be mainly independent members of SDC Boards of Directors and, accordingly, members of the Audit Committees under the SDC Board of Directors. The activity of such committees should be governed by specifically developed internal documents (Regulations for the Bidding Committee, Regulations for Holding Biddings to Select Audit Institution, etc.), which will enable the companies to form their requirements for auditors;

- 5) significant difference in corporate governance quality in SDCs;

Recommendations

Our recommendation is to summarize the positive experience gained by some SDCs in the process of improving their corporate governance systems for the purpose of subsequent implementation in all SDCs in the following areas:

- organization of work of Boards of Directors and its Committees;
- management motivation system;
- organization of internal control system;
- disclosure of information for shareholders, including the organization of work of the IR Departments during the IPO period

We recommend that such analysis should be made in the near term, as after the reorganization of RAO UES of Russia the positive innovations developed by the managements of specific SDCs will not be accessible to other entities of the Holding Company.

Besides the analytical resources of the corporate entities of RAO UES of Russia, one can recommend such forms of exchange of experience as joint meetings of Chairpersons and members of the Committees under the SDC Boards of Directors.

On a regulatory basis, it is also necessary in our opinion that the Regulations for the SDC Boards of Directors should provide for a minimum number of in-person meetings of the Boards of Directors of SDCs as a factor stimulating the actual work of the Boards of Directors.

With regard to forming qualitative compositions of the SDC Boards of Directors, we deem it important to make provisions for the necessity for electing at least three independent directors to each Board of Directors, which is in accordance with international corporate governance standards. In this connection, we recommend that those companies that plan to make public offering (on both Russian and foreign trading floors) should provide for including in their Boards of Directors independent directors who are unequivocally considered as such by all participants of the stock market, rating agencies, and strategic and portfolio investors.