OECD Russia Corporate Governance Roundtable

**MAY 2013 TECHNICAL SEMINAR BACKGROUND PAPER**

*Unofficial translation of the first draft text of the Russian Corporate Governance Code*

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This unofficial translation from Russian into English has been commissioned by the EBRD in April 2013 in order to facilitate the comments of international experts. It is based on the first available draft text of the Russian Corporate Governance Code

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**Draft**

# CORPORATE GOVERNANCE CODE

## INTRODUCTION

"Corporate Governance" is a concept that covers a system of relationships between the executive bodies of a joint-stock company, its board of directors, its shareholders and other stakeholders. Corporate governance is the basis for determining the objectives of the company, the definition of the means to achieve these objectives and mechanisms to control its activities.

Corporate governance affects the economic performance of the joint-stock company, the valuation of the company's shares by investors and its ability to raise the capital needed for economic growth. Enhancing corporate governance in the Russian Federation is the most important measure necessary to increase the flow of investment in all sectors of the Russian economy both from sources within the country and from foreign investors. One way to improve corporate governance is to introduce certain standards based on analysis of its best practices.

The purpose of applying standards of corporate governance is to protect the interests of all shareholders, regardless of the number of shares they own. The higher the level of protection, the more investment Russian joint-stock companies (hereinafter, companies) can count on, which will have a positive impact on the Russian economy as a whole.

Prerequisites for the development of the Code of Corporate Governance (the Code) are as follows:

1. Russian legislation already reflects most generally accepted principles of corporate governance. However, the law still has some gaps, while its provisions implementation practices, including by the judiciary, and the traditions of corporate governance are still developing and are often not satisfactory.

2. Good corporate governance cannot be achieved only through legislation.

Firstly, legislation sets and should only set general binding rules. Legal rules that are too detailed prevent companies from functioning, as each one is unique and features of its activity cannot be fully reflected in legislation. Therefore, law often does not contain any rules governing respective relationships (and the lack of regulation is not always a gap in the law), or it establishes a general rule, leaving the parties to such relationships to choose their behaviour.

Secondly, legislation has not been able to react to changes in corporate governance practice, as changes in the law take time.

3. Many issues related to corporate governance are beyond the legislative sphere and have an ethical, rather than legal nature.

Many provisions of the law regulating, in particular, corporate governance, are based on ethical standards. An example are the rules of civil law, which establish the possibility, in the absence of applicable legislation, of acting on the basis of requirements of good faith, reasonableness and fairness

-requirements to exercise civil rights reasonably and in good faith, as well as prohibitions against the exercise of civil rights solely with the intention of causing harm to another person, or of taking action with an unlawful purpose, or against other deliberately dishonest exercise of civil rights. Thus, the moral and ethical standards of reasonableness, fairness and integrity are part of the current law.

However, these provisions of the law are not always enough to ensure good corporate governance. Therefore, companies should act in accordance not only with legislation, but also ethical rules, which are often more stringent than the rules of law.

4. The Code provides guidance on corporate governance best practices.

The Code has a special place in the development and improvement of Russian corporate governance practices. It plays a pivotal role in establishing standards for managing Russian companies and in promoting further development of the Russian financial market.

It is recommended that, in its activities, a company should follow the provisions of the Code, including where the law sets lighter regulations or contains gaps. The Code has been developed in accordance with current Russian legislation. Provisions of the Code are based on international practices of corporate governance, on corporate governance principles developed by the Organisation for Economic Cooperation and Development (OECD), according to which in recent years a number of countries have adopted corporate governance codes and similar documents, as well as on experience gained in the Russian Federation since the Federal Law "On Joint-Stock Companies" has been effective.

The Code is a set of recommendations. Application of the Code by a company should be voluntary, based on the desire to increase its attractiveness in the eyes of current and potential investors.

The Code contains basic principles of corporate governance best practice, according to which Russian companies can build their systems of corporate governance. It also provides guidance on the practical implementation of these principles.

Principles set out in the Code are designed primarily for joint-stock companies. However, these principles can also be applied, as appropriate, to other legal entities.

## PRINCIPLES OF CORPORATE GOVERNANCE

Corporate governance should be based on the sustainable increase in the value of equity over a long-term perspective. The principle of sustainable development of a company implies the need for decision-making to take into account financial, social and environmental aspects of the company’s activity. The implementation of this principle in the long term is only possible if there is responsible interaction and trust among employees, suppliers, customers and residents in the regions where the company operates.

The corporate governance principles contained in the Code form the basis for the recommendations contained herein, as well as the basic principles to be followed in the absence of such recommendations.

# I. SHAREHOLDER RIGHTS AND EQUALITY OF CONDITIONS FOR SHAREHOLDERS TO EXERCISE THEIR RIGHTS

The system (practice) of corporate governance shall ensure reliable means of recording rights to shares, exercise by shareholders of the right to participate in the management of the company, the right to receive part of the profits of the company, and the right to receive relevant information about the company.

The system (practice) of corporate governance shall ensure equality of conditions for all shareholders -the owners of shares of the same category (type), including minority (small) shareholders and foreign shareholders, and their equal treatment by the company.

*1.1. Shareholders shall be provided with reliable and effective ways to record their rights to shares, and the possibility of free and quick disposal of their shares.*

Without strong protection of property rights and the right to dispose of such property, it is impossible to ensure investment attractiveness of company securities.

Protection of shareholder property rights and the guarantee of freedom to dispose shares owned by such shareholder can be achieved through:

- transmission, by a company with fewer than 50 shareholders, of functions to maintain the register of shareholders to a registrar. This is a professional participant of the securities market with a proper license. Doing so will reduce the risks of infringement of the property rights of shareholders;

- implementation, together with the registrar, of actions aimed at updating information on the shareholders contained in the shareholder register. The legislation places the responsibility for reflecting and maintaining current information in the shareholder register on the company's shareholders themselves, who bear the risks associated with inaccurate or incomplete information contained in the register. In order to reduce relevant risks, the company, together with the registrar, shall promptly notify shareholders of the need to make appropriate changes to their information recorded in their personal accounts in the shareholder register.

***1.2. Under the legislation, critical issues of development and governance of the company fall within the jurisdiction of the general meeting. The right to participate in the general shareholders meeting is a fundamental right of the shareholder.***

Establishing procedures for the preparation and holding of the general meeting is a necessary condition for shareholder trust in the company. Such procedures should ensure equal treatment of all shareholders, provide them with the most favourable conditions for participation in the meeting, conditions for developing reasonable positions on issues on the agenda, and provide the possibility to coordinate their actions and express their opinions on issues being discussed.

The procedure for convening, preparing and holding the general meeting shall be regulated in detail by the Regulation on the General Shareholders Meeting to be approved by the general meeting, which defines timing and procedures for undertaking the aforementioned actions by the company’s bodies and shareholders.

Companies should create conditions for fair treatment of each shareholder by their bodies and controlling entities, including making sure there is no abuse by major shareholders with respect to minority shareholders.

***1.3. Meeting notification procedures and provision of materials for the meeting shall allow shareholders to properly prepare their participation.***

Shareholders must be informed in due time of the general meeting, the date of the drawing up the list of persons entitled to participate in it (the record date), and they should be provided with meeting materials at such time and in such manner as would enable them to develop a position on the issues on the agenda, to get information about the persons entitled to participate in the meeting, and to discuss the agenda with other shareholders.

When determining, as part of the company's articles of association, the publication where notice of the general meeting will be published, this decision shall be based on the actual availability of this publication to the majority of shareholders. In particular, companies should avoid selecting local newspapers with limited geographical reach, or media that is published only infrequently.

As a general rule, notice of the general meeting shall be made not later than 20 days before the scheduled date of the meeting. Taking into account the importance of timely notification of shareholders of a forthcoming general meeting, the company should inform about such meeting no less than 30 days before the meeting, unless the law provides for a longer period of time.

When informing shareholders of the date of drawing up the list of persons entitled to participate in the meeting, information about this shall be disclosed at least 5 days prior to the relevant date, so that everyone can have the opportunity to participate in the general shareholders meeting with the most optimal shareholding.

The notice of the general meeting shall contain sufficient information to enable shareholders to make a decision regarding participation in the meeting as well as the method of their participation.

In addition to the information which under the law must be contained in the notice of the general meeting, it is recommended to specify therein:

1) the wording of the proposed resolution for each item on the agenda;

2) the exact location of the meeting, including details of the room in which it will be conducted;

3) information on the documents required for admission to the premises in which the meeting is to be held.

In addition to the notification methods provided by law, it is recommended to provide, in the internal documents of the company, for publication of the notice of the meeting on a website on the Internet (the Internet), the electronic address for which should include a domain name the rights to which belong to the company (hereinafter, the company’s website), along with sending (publishing, delivery) of such notice to the shareholders.

Also, the company is recommended to publish information on its website about how to travel to the venue of the meeting, the approximate form of power of attorney that a shareholder can give to its representative to attend the meeting, as well as information on how to certify such power of attorney.

Since, in accordance with the law, the meeting notice and meeting materials are sent to shareholders whose rights are recorded by depositories through such depositories in electronic form, it is recommended to provide those shareholders whose rights are recorded in the register with the opportunity to receive a meeting notice, and to provide access to the materials of the meeting, in electronic form at their request.

Information about who has proposed each item is of great importance for shareholders wishing to form an objective opinion on an agenda item. This information will allow the shareholder to form a more accurate idea of the purpose of bringing the matter to the general meeting and, accordingly, on possible ways to resolve it. In this context, when preparing the general meeting agenda, it is recommended to specify who proposed each of the listed issues.

During the preparation and holding of the general meeting, shareholders shall have the possibility to receive unmediated and timely information about the meeting and its materials, to pose questions to members of the company's executive bodies and board of directors, and to communicate freely with each other. During the period of preparation for the meeting, the company shall establish necessary technical conditions to ensure that shareholders may pose questions to members of the company's executive bodies and board of directors, as well as to publicly express their opinions on the meeting's agenda items. To this end, the company is recommended to support a special telephone line (hotline) for communication with shareholders, to establish a special email address, and to provide a forum for discussion of the meeting agenda on its website.

In order to strengthen the foundations for decisions taken by the general meeting, in addition to materials being mandatory by law, it is recommended that companies provide shareholders with the following additional materials:

1) details of the proposed external auditor, including the name of its self-regulating organisation, and a draft auditing contract;

2) reports giving reasoned positions of the board of directors regarding voting on agenda items, as well as dissenting opinions of board members on each item. These opinions of board members are recommended for inclusion into the minutes of a meeting of the board of directors where such opinions have been expressed;

3) recommendations (conclusions) of board committees on items included in the agenda of the general shareholders meeting, including the positions of the committees regarding nominees and recommendations on the amount of remuneration and/or compensation of the one-person executive body (the general director, management company, or manager), members of the collective executive body (management board, directorate), and members of the board of directors of the company;

4) information on the appraised market value of assets used for payment for additional shares placed by the company as well as assets and/or the shares of the company, if such appraisal has been completed by an independent appraiser, or other information enabling a shareholder to form an opinion on the real value of such assets and its dynamics;

5) the rationale and potential consequences for the company and its shareholders of changes to the company's articles of association and internal documents, decisions to increase or reduce its share capital, approval of major transactions and interested party transactions;

6) when approving an interested party transaction, a list of persons deemed to be interested in the transaction, including the grounds on which such a person is considered to be so interested.

7) full information about nominees to the positions of board members, the general director, members of the management board, members of the internal audit commission, including information about their experience and professional biographies. Where transfer of powers of the one-person executive body to a management company or manager is considered, full details on such management company or manager should be disclosed;

8) details of the procedure for calculating the amount of dividends on preferred shares in respect of which the company's articles of association establishes the procedure for their determination.

The company is recommended not to deny a shareholder the right to review meeting materials, if, notwithstanding typos and other technical flaws, the shareholder's request enables the company to determine his will and confirm his right to access the meeting materials, including the receipt of copies. If there are more serious flaws the company is recommended to inform the shareholder about them immediately to enable the latter to correct such flaws in due time.

***1.4. Shareholders should have the opportunity to review the list of persons entitled to participate in the meeting.***

The opportunity to review the list of persons entitled to attend the general shareholders meeting enables shareholders to evaluate the balance of power at the forthcoming meeting, to jointly propose nominees for election to company bodies, to discuss and negotiate possible voting options and to appoint a representative to attend the meeting. The company is recommended to provide shareholders entitled to review the list with the opportunity to review it from the date of its drawing up.

***1.5. The right of a shareholder to demand that a shareholders meeting be convened and to place proposals on the agenda shall not be subject to unjustified difficulty.***

By law, shareholders holding in aggregate not less than 2 per cent of voting shares in the company may introduce items to the agenda of the annual general shareholders meeting and to propose nominees for the board of directors, the management board, the internal audit commission and the counting commission of the company and to the position of the general director. Such proposals must be received by the company no later than 30 days after the end of the fiscal year. The company is recommended to increase this period to 60 days in its articles of association.

If there are typos and other technical deficiencies in shareholder proposals, it is not recommended that the company refuse to include these proposals on the agenda or refuse the proposed nominee to the list of nominees for election as long as the contents of the proposal as a whole are sufficient to determine the will of the shareholder and to confirm his right to submit the proposal. If there are more serious flaws, the company is recommended to report them in a timely manner to the shareholder so that it is possible to correct them before the board approves the agenda and the list of nominees to respective bodies of the company.

***1.6. Each shareholder shall be able to freely exercise its right to vote in the simplest and most convenient way.***

Registration procedures for the general meeting adopted by the company shall not create barriers to participation of any of its shareholders and shall be defined in detail in the company's internal documents. In internal documents regulating the activities of the general shareholders meeting, it is recommended to provide an exhaustive list of documents to be submitted to the counting commission for registration.

The number of persons in charge of registration and the time allowed for registration shall be sufficient to allow all shareholders who wish to participate in the meeting to register.

To avoid errors and abuse in meeting registration and tabulation of voting results, the company shall engage a registrar to act as the counting commission, even if such engagement is not required by law. It is recommended that contracts for the counting commission include conditions that the registrar, when exercising the functions of the counting commission, is bound by the articles of association and internal documents of the company governing the preparation and conduct of the meeting, and that it has property responsibility for any failure to perform or improper performance of these functions.

It is recommended that the company build systems to allow shareholders to vote by electronic means, provided that it has required technical means. Thus, in particular, in order to create favourable conditions for the participation of shareholders in general meetings, the company is recommended to allow its shareholders to complete an electronic ballot through a "My Account" section on the company's website.

The company should conclude its general meeting within one day, in order to minimise cost to shareholders. If, for objective reasons, it is not possible to conclude in one day, the company should continue its meeting, at least, on the following day.

Results of voting should be summed up and announced before the end of the general meeting.
This will eliminate any doubts about the voting results and thus will strengthen the confidence of shareholders in the company.

In order to maximise the taking into account of the views of all shareholders in the voting results, the counting of ballots in the counting commission should follow the following principle: a ballot may not be invalidated if the will of a particular shareholder on a specific agenda item is made clear.

Access to the decisions of the general meeting shall be open to all shareholders. It is therefore recommended to include in the company's articles of association and internal documents the responsibility of company to place the minutes of the general meeting on its website as soon as possible.

***1.7. Established procedures of a general meeting shall provide reasonable equal opportunity to all persons present at the meeting to express their opinions and to ask questions.***

The general meeting shall be conducted in such a way that the shareholders have the opportunity to make informed and reasoned decisions on all matters on the agenda. In order to do so, a reasonable and sufficient time for reports on the agenda should be provided and there should be sufficient time to discuss these issues.

In order to enhance shareholder participation in the monitoring of the financial and economic activities of the company, shareholders must be given the opportunity to ask questions of members of the internal audit commission, the chairman or other members of the audit committee of the board of directors, and the external auditor of the company. Shareholders must be given the opportunity to ask questions regarding their submitted opinions and, accordingly, to receive answers to their questions.

Therefore, the company should invite such persons to participate in the general shareholders meeting.

In order to elect to the board of directors, executive bodies and the internal audit commission members who would enjoy shareholders' confidence, shareholders must be given an opportunity to ask questions to the nominees to such bodies, therefore the company should ensure their presence at the meeting.

Meeting participants should be able to consult with each other on issues relating to their rights as participants of the meeting.

Companies with high market capitalisation and a large number of shareholders holding small stakes are recommended to transmit the proceedings of the general shareholders meeting on the company's website, using video conferencing.

***1.8. Legal entities controlled by the company should not participate in voting decisions at general shareholders meetings.***

The legislation provides for a ban on participation in the management of the company using shares held by the company itself (so-called "treasury" shares), based on the fact that control of such shares is held by the company's executive bodies, which thus can gain control over the company by use of these shares, at the expense of the company, or, from the standpoint of economic sense, at the expense of shareholders. This can contradict the very essence of a business company.

Despite the fact that the legislation does not provide for a similar ban in respect of company shares held by legal entities controlled by the company (so-called "quasi-treasury" shares), international best practice suggests the inadmissibility of voting such "quasi-treasury" shares at a shareholders meeting of the company. In connection with this, it is recommended that legal entities controlled by the company do not participate in voting decisions at the company's general shareholders meetings.

***1.9. Shareholders should have the opportunity to participate in the profits of the company by establishing a transparent and clear mechanism for determining the amount of dividends and their payment.***

Information about the company's strategy with respect to determining the amount of dividends and their payment is necessary, both to existing and potential shareholders of the company, as it can greatly influence their decisions regarding the acquisition or sale of shares in the company.

The company should adopt a dividend policy, which should be stated in the Regulation on Dividend Policy; this internal document of the company shall be drafted and approved by the board of directors.

To ensure transparency of the mechanism for determining the amount of dividends and their payment, it is recommended to set forth rules in the Regulation on Dividend Policy governing the procedure for determining a portion of the company's net income that will be allocated for the payment of dividends, the conditions under which dividends are declared, the procedure for calculating the amount of dividends on the shares on which the dividend amount is not set in the company's articles of association, and the minimum amount of dividends on shares of different classes (types).

For companies preparing consolidated financial statements, we recommend setting a procedure for determining the minimum share of consolidated net income to be allocated for the payment of dividends.

The company's Regulation on Dividend Policy should be disclosed on the company's website.

The company should avoid articles of association language that may mislead investors regarding the determining of dividends on preferred shares, as such statements may create uncertainty as to whether such preferred shares are voting shares.

The decision to pay or not to pay dividends should not be used as a tool for a change in corporate control. Thus, non-payment of dividends on preferred shares, where there exist real sources for their payment, which grants owners of preferred shares the ability to vote on all issues on the agenda of the general shareholders meeting, cannot be considered good corporate practice.

When deciding on the placement of preferred shares, the company should place shares with the same nominal value as the nominal value of the ordinary shares.

Recommendations of the board of directors on the amount of dividends should be made no later than the date of the decision regarding the date of the general shareholders meeting and/or the meeting record date.

Decisions to pay dividends should enable shareholders to receive comprehensive information relating to the amount of dividends on the shares of each category (type).

The company should not take a decision on the payment of dividends, if such decision, without violating limits set by law, leads to the formation of false assumptions about the company. These might be, for example, cases where dividends are declared on ordinary shares and/or preference shares in the absence of or with insufficient net profit (consolidated net income in the event that the company prepares consolidated financial statements) for the year or insufficiency of the funds specifically set aside for the payment of dividends on preferred shares of a certain type.

The procedure for dividend payments shall best conform to the implementation of the rights of shareholders to receive them.

The company should pay dividends only in cash, inasmuch as payment by other means makes assessment of the real amount of dividends paid much more difficult, and the receipt of other property in the form of dividends may involve additional obligations and costs to shareholders.

In the case of payment of dividends in cash to shareholders, the company should explain to the shareholders that it is important to inform the company of any change in their data required for dividend payments (bank account details, mailing address, etc.) and related consequences .

The company should not cancel or change previous decisions on the payment of dividends.

The company should provide for sanctions to be applied to the executive bodies in the event of incomplete or untimely payment of the declared dividend.

***1.10. The company should not allow deterioration of dividend rights of existing shareholders and dilution of their shares when taking corporate actions, as well as the use of other means of making a profit at the expense of the company, in addition to dividends and liquidation value.***

The legislation provides for the protection of shareholders' dividend rights in the form of preemptive rights to purchase additional shares placed by the company, granting the right to vote on amendments to the articles of association limiting their rights, and providing shareholders who voted against or did not participate in the vote, the right to demand redemption of their shares by the company.

However, in practice statutory means and ways to protect the dividend rights of shareholders are not always sufficient. In this regard, the company, when taking corporate actions, must make efforts not to allow deterioration of dividend rights and inevitable dilution of shares owned by existing shareholders.

The company and its controlling shareholders must ensure that the placement of additional shares by the company does not violate the dividend rights of existing shareholders.

The company should take all measures to prevent shareholders from deriving a profit from the company in other ways, in addition to dividend and liquidation value (for example, through transfer pricing, dividend substitute domestic loans, unjustified rendering of services by a controlling person at inflated prices, etc.).

## II. BOARD OF DIRECTORS AND EXECUTIVE BODIES OF THE COMPANY

The system (practice) of corporate governance should ensure the strategic management of the company by the board of directors and its effective control over the company's executive bodies, as well as the accountability of the board of directors to the shareholders.

The system (practice) of corporate governance should enable the executive bodies of the company to manage its daily activity efficiently, reasonably, in good faith, solely for the benefit of the company and its shareholders, and ensure the accountability of the executive bodies to the board of directors of the company and its shareholders.

The most important decisions relating to the activities of the company are taken by the general shareholders meeting within its jurisdiction under the law. Decisions related to the daily management of the company's activity shall be taken by the executive bodies of the company.

Determining the company's development strategy, overseeing the activities of its executive bodies, exercising control over the risk management and internal control system, and control over the practice of corporate governance in the company require professional skills and efficiency. Decision-making on these issues belongs to the jurisdiction of the board of directors elected by the general shareholders meeting. By law, the board of directors is responsible for general management of the company's business, has broad authority, and bears liability for any improper performance of its duties.

The company and its controlling shareholders should strive to create an effective and professional board of directors as the management body in which issues within its jurisdiction are discussed, studied and decided with objectivity and independence from management.

The articles of association of the company should set out clearly defined powers and functions of the board of directors and demarcate the competencies between the board of directors, the executive bodies, and the general shareholders meeting.

### *2.1. Board of directors*

*2.1.1. Board members should act in good faith and reasonably in the interest of the company and its shareholders on the basis of full information, with due care and diligence.*

Board members should carry out their duties reasonably and in good faith, with due care and diligence, and solely in the interests of the company and of its shareholders in order to achieve sustainable and successful development of the company. In addition, the board should consider the interests of stakeholders, including employees, creditors, suppliers of the company, and people living in the territory in which the company operates. In this regard, the board of directors is recommended to take decisions in compliance with accepted environmental and social standards.

Acting reasonably and in good faith means that board members should make decisions considering all available information, in the absence of a conflict of interest, treating shareholders of the company equally, and assuming normal business risk.

If there is a potential conflict between the personal interests of a board member and the interests of the company, in particular, if a board member is interested in a particular transaction of the company, the board member must notify the board of directors accordingly.

Board members should use their best efforts to participate in work carried out by the board of directors.

In cases where the decision of the board of directors may have different effects on different groups of shareholders, the board should treat all shareholders fairly.

The efficiency of work carried out by board members (especially non-executive directors and independent directors) largely depends on the form, timing and quality of information they receive.

The information that is periodically presented to board members by the executive bodies is not always sufficient to enable the board members to properly perform their duties.

In this regard, board members are encouraged to request additional information when such information is necessary to make an informed decision. The duty of the company's officers to provide the board members with such information should be set forth by the company's internal documents.

A board member may not participate in deciding a matter in an objective manner if there is a conflict between his personal interests and the interests of the company. Board members are recommended to abstain from voting on matters if they are personally interested in a particular decision on such matters. A board member should immediately notify the board of directors, whether through its Chairman or the Corporate Secretary of the company, of such interest and grounds for it.

A conflict of interest means any contradiction between the interests of the company and those of a board member, including those arising by virtue of his/her business, friendship, family and other ties and relations. A conflict of interest, in particular, can arise as a result of a transaction in which a board member is interested, whether directly or not, or acquisition of shares (interests) in legal entities competing with the company or holding a position in such legal entities, or entering into contractual relations with them.

Board members should refrain from actions that will or may result in a conflict between their interests and those of the company.

The fact that board members should act in the interests of the company requires that they enjoy the trust of shareholders; therefore, it is necessary to exclude any situations where pressure may be put on a board member in order to induce him to take an action or make a decision contrary to the company's interests. In particular, board members and their close relatives should not accept gifts from any persons interested in their decisions; nor may any such board member use any other direct or indirect benefit provided by such persons (other than tokens of attention in accordance with generally accepted rules of courtesy or souvenirs during official events), which should be specifically provided for in the company's internal documents.

It is recommended that the rights and obligations of the board members should be clearly determined and set forth in the company's internal documents.

*2.1.2. The board of directors shall perform essential key functions.*

2.1.2.1. Development of the company's strategy.

As part of this function, the board of directors should establish basic long-term targets of the company's activity, discuss and approve its key performance indicators and principal business goals, evaluate and approve its strategy and business plans in respect of its principal operations, and exercise control over the executive bodies so that they would act in accordance with the approved guidelines for the development of the company.

The board of directors should procure that respective resources are allocated in the course of developing the company's strategy for that purpose. It should also determine the format in which the description of the strategy must be prepared, contribute to the discussion and provide an objective

assessment of the strategy development process, as well as evaluate and approve the final strategic plan.

Strategy and specific business plans should contain clear criteria (at least a majority of such criteria should be quantifiable) in accordance with which the board of directors will monitor the implementation of the strategy and specific business plans throughout a year as well as interim targets.

These criteria must show:

- whether or not economic and financial performance indicators and conditions of the company's operations correspond to those set out in the action plan; and

- whether or not practical measures aimed at implementing the strategy are taken.

The board of directors is recommended to periodically hear reports of the one-person executive body and members of the management board (members of the executive management) on the implementation of the strategy, with particular attention to compliance with the approved criteria.

It would be useful if the board of directors from an early stage would take part in the discussion of all significant changes relating to previously approved objectives, strategies, or business plans of the company.

One of the main ways to carry out this function can be annual approval by the board of directors of a financial and operational plan (budget) of the company proposed by the executive bodies. The financial and operational plan should be sufficiently detailed to enable the executive bodies of the company to take the initiative in managing the company's daily operations in the framework of the plan.

In assessing a developed strategy of the company, the board of directors shall decide whether it is realistic, given the strengths and weaknesses of the company as well as current and projected economic and financial environment.

In companies that are controlling persons, it is recommended to determine what powers the board of directors of the controlling company will have in relation to determining development strategies and evaluating performance of controlled companies.

It is recommended that the board of directors hold a special meeting once a year to discuss the issues of strategy.

2.1.2.2. Determining principles and approaches to risk management and internal controls in the company, ensuring the objectivity of its financial statements, including the external audit.

It is recommended that the articles of association of the company should provide for the board of directors' powers to approve a general policy in the area of internal control and risk management and for responsibility of the executive bodies (management) of the company to the board of directors for establishing and maintaining an effective system of risk management and internal control. The respective procedures shall provide for timely notification of the board of directors of any material weaknesses in the internal control system.

Internal documents of the company should provide for the duty of the board members to assess social, ethical, environmental, and other non-financial risks faced by the company, determine a level of risk acceptable to the company, and require the executive bodies to account for risk management.

When approving the risk management procedures, the board of directors should seek to achieve an optimal balance between risk and return to the company as a whole, subject to the laws and requirements of its internal documents and articles of association, as well as to develop adequate incentives for work of the executive bodies of the company, its departments and individual employees.

The board is recommended to analyse and evaluate the risk management and internal control system at least once a year. Such analysis and evaluation may be based on data in reports received regularly from the executive bodies (management) of the company, reports of the internal audit department and the external auditor, the board of directors' own observations, and information from other sources. The company, as a rule, should not be involved in operations and enter into transactions that are associated with increased risk of loss of capital and investment.

It is recommended that the company should publicly disclose information on the performance by its board members of their responsibilities associated with their role in the organisation of the company's efficient risk management and internal control system.

2.1.2.3. Ensuring transparent mechanisms for election of the board of directors and executive bodies of the company.

Election of board members and formation of the company's executive bodies shall be carried out through a transparent procedure that takes into account the diversity of views of its shareholders and ensures that the composition of the board of directors and the executive bodies corresponds to statutory requirements.

In this regard, shareholders should be able to obtain full information about the nominees to the company's board and executive bodies. In particular, immediately after the approval of a list of such nominees, the company should disclose information about the person (group of persons) who has proposed a particular nominee to said governing bodies, the nominee's age and education, positions held by him/her for at least the last five years, his/her position as of the time of his/her nomination, the nature of his/her relationship with company, his/her membership in boards of directors or positions held thereby in other legal entities, as well as about his/her nomination to the board of directors or for election (appointment) to a position in other legal entities, his/her written consent to be elected, information on relationships with affiliates and major trading partners of the company, information about compliance with the requirements for independent directors (where the nominee is proposed to the board of directors), and any other information that could affect the nominee's ability to perform his/her respective duties, and other information about him/her provided by the nominee. Similar information should also be provided in the courseof preparation for and holding the general shareholders meeting or a meeting of the company's board.

It is recommended that the company should provide, in its internal documents, for measures to be taken to comply with legal requirements or recommendations of this Code. It is not recommended to nominate same persons for election concurrently to the board of directors and executive bodies, where such decisions are taken at the same general shareholders meeting. In addition, it is recommended to propose nominees to the board of directors that meet the criteria of independence and enjoy good business reputation, in particular, among portfolio investors, as well as to advise the shareholders in advance of the proposal of such nominees and provide information about them.

2.1.2.4. Control over the executive bodies of the company.

The company's executive bodies shall be accountable to the shareholders and its board.
However, as a rule, shareholders may receive a report on the activities of the executive bodies of the company only at the annual general meeting, which does not ensure the effective control over their activities. Therefore, it is the company's board that plays the main role in control over its executive bodies.

Such control means that the board of directors should be able to consider, on a preliminary basis, nominees to the executive bodies and should have the right to suspend the powers of the general director (management company or manager) elected by the general shareholders meeting. The board's right to suspend the powers of the one-person executive body shall be provided for by the company's articles of association.

The articles of association of the company should provide that approval of the terms and conditions of contracts to be entered with members of the executive bodies of the company, including the terms of their remuneration and other payments due to them, falls within the jurisdiction of the board of directors.

In companies with a significant number of legal entities under their control, it is recommended to determine the powers of the controlling company's board in relation to proposal of nominees to the executive bodies and the board of directors of respective controlled legal entities.

If the executive bodies of the company are formed by the general shareholders meeting, the company's articles of association should provide for the right of the board of directors to suspend the powers of the one-person executive body (management company or manager) as well as for the time limits and reasons for suspension of his/her powers, in particular, if any violations have been identified in the performance of his/her duties.

2.1.2.5. Developing a policy on remuneration of board members, members of the executive bodies and other key managers of the company.

The company should develop and implement a policy on remuneration and/or compensation due to the board members, the executive bodies and other key managers of the company.

It is recommended that the company's remuneration policy should be developed by a remuneration committee of the board of directors specifically created for that purpose.

The policy on remuneration and/or compensation due to the board members, the executive bodies, and other key managers of the company must comply with the principles of transparency and accountability and take account of the roles of the above persons in the company's activity.

The policy on remuneration due to the board members should promote convergence of interests of the directors and the shareholders and regulate all kinds of fees and compensation of expenses to be paid to the board members, including remuneration for their participation in work of the committees, for chairing the board of directors or a committee, as well as all contingent forms of remuneration due to the board members if they are used by the company.

In its turn, the system of remuneration due to the executive management and key employees should be designed in accordance with the company's long-term interests and made dependent on objective performance results of the company (or a group of organisations which includes the company). There must be a list of key managers (list of positions) covered by such policy. The policy should regulate all forms of remuneration and other material benefits, including reimbursement of expenses, benefits, pension contributions, insurance premiums, and other payments provided to members of the executive bodies, other key managers of the company and their family members, whether by the company or by its controlled entities.

The remuneration policy should also include criteria for performance evaluation (key performance indicators) of members of the executive bodies and other key managers of the company as well as objective mechanisms for determining the amount of contingent fees in the context of collective and individual performance.

The board is recommended to take actions aimed at recovering funds in favour of the company which were unlawfully obtained by the executive management under any short and/or long-term incentive programmes.

2.1.2.6. Control over conflicts of interest, prevention, detection and resolution of internal conflicts between the company's bodies, its shareholders and employees.

The board of directors should help settle any corporate conflicts. All shareholders must be given the opportunity to obtain effective remedies if their rights are violated.

The company should implement a system of corporate governance that ensures equal treatment of all its shareholders, including minority and foreign shareholders.

The company shall be obliged to take any and all necessary and possible measures for prevention and resolution of a conflict (as well as for mitigation of its consequences) between the company and its shareholder(s), as well as between its shareholders, where such conflict affects the company's interests, and to use out-of-court dispute resolution procedures, including mediation.

The board of directors should play a key role in these processes. A special role in prevention of corporate conflicts should belong to independent directors of the company, who should carry out a preliminary evaluation of the company's actions and decisions which might result in a corporate conflict; should the independent directors' opinion be negative, it is recommended to abstain from taking respective actions or making respective decisions.

If, at any stage, a conflict affects or might affect the interests of the company's executive bodies, it should be referred to the board of directors or its corporate governance committee. Board members whose interests are or might be affected by the conflict should not participate in its resolution. If board members have a conflict of interest, then, in order to avoid a corporate conflict, they must immediately notify of their conflict of interest when making a respective decision and/or considering a respective matter.

Minority shareholders should be protected from abuse by or for the benefit of controlling shareholders acting directly or indirectly and should be provided with effective remedies for violation of their rights.

Shareholders must not abuse the rights granted to them. Shareholders are not permitted to perform any actions intended solely to cause harm to other shareholders or the company; similarly, no other abuses of the rights of shareholders are permitted.

The company should create a system designed to identify its transactions which are entered into for the personal benefit of its shareholders, executive bodies or employees. For example, conflicts will be prevented by procedures ensuring that members of the collective executive body, the one-person executive body of the company, and other persons who may be deemed interested in a particular transaction of the company comply with their duty to disclose their interest to the company.

To rule out a conflict of interest, executive directors are recommended to abstain from voting when approving the terms and conditions of contracts to be entered with members of the company's executive bodies and not be present in person when relevant issues are discussed.

2.1.2.7. Control over disclosure of information by the company and provision of information to shareholders.

Disclosure of information is an important tool; it promotes long-term relationships of trust with shareholders, increases the value of the company, and helps it raise capital and maintain confidence in

the company on the part of its stakeholders (partners, customers, suppliers, the public, and government agencies).

In this regard, control over disclosure of information by the company and provision of information to its shareholders is one of the most important functions of the board of directors. To perform this function, the board of directors is recommended to develop and approve the company's information policy which should provide for a reasonable balance between the company's openness and its commercial interests.

It is recommended to set out the company's information policy in its internal document which shall be approved by the board of directors.

The board is recommended to impose the duty to routinely monitor the compliance with the existing legal requirements, including limitations on misuse of insider information, and with the company's information policy on a committee of the board of directors or the corporate secretary.

2.1.2.8. Control over corporate governance practices in the company and evaluation of corporate governance

The board of directors should monitor the company's corporate governance practices, which involves an on-going analysis of compliance with the company's corporate governance system with its goals and challenges facing the company, as well as with the scope of its activities and accepted risks.

Evaluation of corporate governance should be focused on division of powers and determination of responsibilities of each of the company's bodies.

Upon the results of its evaluation, the board of directors should make proposals aimed at improving corporate governance practices and, if necessary, making required changes to the articles of association and internal documents of the company.

2.1.2.9. Evaluation of quality of work of the company's board and executive bodies.

Evaluation of performance of the company's board and executive bodies enables one to determine the contributions made by members of these bodies to the implementation of the company's strategy and attainment of its main objectives, evaluate the quality work of the one-person executive body in his/her capacity of a manager, and increase the board's contribution to the successful development of the company.

Such evaluation is intended to measure the efficiency of work of the company's board and executive bodies, check whether or not their work complies with the company's development requirements, make their work more active, and identify areas in which their work can be improved.

It is recommended that evaluation of the board of directors' work should include not only an assessment of its work in general, but also an assessment of work of its committees and each board member, including its chairman. Performance of the board chairman should be evaluated by the independent directors, with due account of opinions of all the board members.

Criteria for evaluation of the board of directors must reflect professional and personal skills of the board members, their independence, level of coordination of their work and their personal contributions, as well as other factors affecting the performance of the board of directors. Efficiency of the board's work may be evaluated by the board of directors on its own (self-evaluation) or by an external organisation (consultant) retained thereby which shall be independent and qualified to conduct an independent evaluation of the board's work. Such evaluation must be conducted annually,

and it is recommended to retain an independent consultant for that purpose at least once every three years.

The results of a self-evaluation or third-party evaluation shall be considered at a board meeting to be held in the form of joint presence of its members. The chairman of the board of directors and the nominating committee shall, if necessary, adapt the procedures of work of the board of directors in order to improve their efficiency.

As a rule, shareholders can obtain a report on the activities of the company's executive bodies only at its annual general meeting, which is insufficient for effective control over the activities of the executive bodies. The board of directors is meant to play a major role in evaluation of performance of the company's executive bodies. It is recommended that the performance of the company's executive bodies is evaluated on a regular basis at least once a year; such evaluation should be carried out in the context of key efficiency indicators of the company's performance approved by the board of directors in accordance with the company's programme setting out its short-term and long-term development strategies.

Performance of the company's executive bodies should be evaluated by the remuneration committee, and the results of such evaluation, including recommendations on the remuneration to be paid, disciplinary actions, if any, expulsion from the executive bodies or termination of the employment contract (if applicable), should be approved by the board of directors.

It is recommended that the main results of evaluation of performance of the company's board of directors and executive bodies should be disclosed in the annual report of the company. If an external consultant is retained to evaluate the performance of the board of directors, it is recommended to include in the annual report a certification of the independent consultant confirming that the information therein fairly reflects the main conclusions presented by the independent consultant upon the results of the evaluation.

*2.1.3. Members of the board of directors should help it carry out the functions imposed thereon in a most efficient manner.*

The board of directors should enjoy the confidence of the shareholders; otherwise it will not be able to function efficiently.

Personal qualities of a board member and his/her reputation should not give rise to any doubt as to whether he/she would act in the best interests of the company and its shareholders. In this regard, it is recommended that only persons with impeccable reputation be elected to the board of directors; such persons should also have knowledge, skills, and experience necessary to make decisions that usually fall within the jurisdiction of the board of directors and to perform its functions efficiently. For this purpose, if a person is deemed to have no or limited legal capacity or has an outstanding or non-expunged conviction, this will negatively affect his/her reputation. It is not recommended to elect a person under 21 years of age or having a disease preventing such person from carrying out the duties of a board member to the board of directors.

A conflict of interest gives rise to doubt as to whether a respective board member would act in the best interests of the company. In particular, it is not recommended to elect to the board of directors any person who is a participant in a legal entity competing with the company, a member of the executive bodies and/or an employee of such legal entity.

A board member should understand his/her duties and responsibilities assumed thereby upon his/her election to the board of directors. In this connection, it is recommended to publish on the company's website a document describing the scope of duties and responsibilities imposed on a board member and to obtain the written consent of the nominees to be elected to the board of directors.

The membership of the board of directors of each company must enable the board to organise their activities in a most efficient way, in particular, to create committees of the board of directors with a view to making the maximum contribution to the successful development of the company.

It is recommended to determine the number of board members in such way that substantial minority shareholders of the company would be able to elect their nominee to the board of directors.

2.1.3.1. The board of directors should include a sufficient number of independent directors;

Based on Russian companies' practices, their boards of directors, as a rule, consist of three categories of directors, namely, executive, non-executive, and independent directors.

In accordance with existing practices, executive directors mean members of the company's executive bodies; under the law, they may account for no more than one fourth of the total number of the elected board members of the company. However, such interpretation of the term "executive director" is narrow. It is recommended that the term "executive director" be understood to mean any person who is an employee of the company, that is, any person who has employment relations with the company.

The company is recommended to elect to its board of directors any employee who is not a member of its executive bodies.

To enable the board of directors to efficiently perform its functions, including those relating to the protection of shareholders' interests and mitigation of risks, the board of directors should include independent directors, that is, persons who are not executive directors and, in addition, who are independent of any officers of the company, its major shareholders, their affiliates, legal entities controlled by the company, and its major trading partners and who have no other relationships with the company which may affect their independence of judgment.

It is recommended that minutes of the general shareholders meeting at which board members are elected should state which elected board members have been elected as independent directors.

Independent directors are meant to make a significant contribution to discussion and decision-making, first of all, on such issues as developing a strategy for the company's development and assessing whether or not the company's activity corresponds to its development strategy, preventing and resolving corporate disputes, evaluating the performance of the executive bodies, assessing whether or not the company's activity corresponds to the interests of all its shareholders, disclosing reliable information on the company's activity in due time, reorganising and increasing its share capital, making material changes to the company's articles of association which affect the rights of its shareholders, as well as on issues relating to the procedures for the company takeover and other important issues which may affect the interests of the shareholders. Thus, the presence of independent directors on the board of directors enables the latter to form objective opinions on issues considered thereby, which ultimately contributes to investor confidence in the company.

In determining specific requirements (criteria) to be met by an independent director, such directors should be presumed to be able to make objective and fair judgments, free from the influence of the company's executive bodies, any individual groups of its shareholders or other stakeholders.

The board of directors should evaluate independence of nominees to the board (in particular, based on a questionnaire) and form an opinion on the independence of each nominee, as well as carry out regular reviews in respect of individual independent directors to verify whether or not they meet the criteria of independence. When assessing the independence of each individual nominee, the substance must prevail over the form.

Although it is impossible to draw up an exhaustive list of all possible circumstances that could affect independence of a particular director, there is a number of situations that are generally recognised as being relevant in ascertaining the independent status of a nominee.

In this context, a nominee should be deemed independent provided that the following minimum requirements are met:

1) the nominee and/or his/her close relatives[1] are not, and were not during the last three calendar years, members of the executive bodies or employees of the company (or a legal entity forming part of a group of organisations[2] which includes the company) or its management company;

2) the nominee and/or his/her close relatives are not members of the board of directors of a legal entity that controls the company or is controlled thereby;

3) the nominee and/or his/her close relatives have received no remuneration or other material benefits (including loans or services) from the company (or a legal entity forming part of a group of organisations which includes the company) in excess of 1 million roubles per year during any of the last three calendar years. For this purpose, no account should be taken of any payments and/or compensation that the nominee and/or his/her close relatives received in the form of remuneration and/or reimbursement of expenses as a result of their performance of the duties of a member of the board of directors (or a committee of the board of directors) of the company (or a legal entity forming part of a group of organisations which includes the company), including payments related to their liability insurance as board members, as well as income and other payments received by the nominee and/or his/her close relatives in relation to any securities of the company (or a legal entity forming part of a group of organisations which includes the company);

4) the nominee and/or his/her close relatives are not owners or beneficiaries of any shares[3] issued by the company or its material trading partner[4] which account for more than 5 per cent of the share capital or the total number of the voting shares (interests);

5) the nominee and/or his/her close relatives are not associated with any major shareholder[5] of the company, namely:

a) are not employees and/or members of the management bodies or close relatives of an employee and/or a member of the management bodies of a major shareholder of the company (or a legal entity forming part of a group of organisations which includes a major shareholder of the company);

[1] For the purposes of this Code, close relatives are the spouse, parents, children, adoptive parents, adopted children, brothers and sisters, half-brothers and half-sisters, grandparents, and any other person residing together with the candidate (board member) and having a common household with him/her.

[2] For the purposes of this Code, a group of organisations is two or more legal entities associated with each other by virtue of relationships of control or accountability.

[3] For the purposes of this Code, a beneficiary of the company's shares is an individual who, by virtue of his/her participation in the company, a contract or otherwise, receives the economic benefits of ownership of shares (interests) and/or use of the votes attaching to shares (interests) in the share capital of the company.

[4] For the purposes of this Code, a major trading partner of the company is a person being a party to a contract(s) with the company, provided that the amount of obligations thereunder equals 2 or more per cent of the book value of the assets or 2 or more per cent of the revenues (income) of the company (or a group of organisations which includes the company) or such major trading partner of the company (or a group of organisations which includes such major trading partner).

[5] For the purposes of this Code, a major shareholder of the company is a person who owns more than 5 per cent of the company's share capital or its voting shares.

b) have received no remuneration or other material benefits from a major shareholder of the company (or a legal entity forming part of a group of organisations which includes a major shareholder of the company) in excess of 1 million roubles per year during any of the last three calendar years. For this purpose, no account should be taken of any payments and/or compensation that the nominee and/or his/her close relatives received in the form of remuneration and/or reimbursement of expenses as a result of their performance of the duties of a member of the board of directors (or a committee of the board of directors) of such major shareholder of the company (or a legal entity of a group of organisations which includes such major shareholder of the company) or any company controlled by the major shareholder of the company, including payments related to their liability insurance as board members, as well as income and other payments received by the nominee and/or his/her close relatives in relation to any securities of such major shareholder of the company (or a legal entity forming part of a group of organisations which includes the major shareholder of the company); are not members of the boards of directors of more than two legal entities controlled by a major shareholder of the company or a person controlling such major shareholder;

d) the nominee and/or his/her close relatives are not employees, and/or members of the management bodies, or close relatives of an employee and/or a member of a management body, of a major trading partner of the company or any legal entities controlling or controlled by a major trading partner of the company;

7) the nominee and/or his/her close relatives do not and did not, during the past three years, provide any auditing, consulting, accounting, or appraisal services to the company or any of its controlled entities, or, if such services are or were provided by any entities, are not, and were not during the last three years, employees involved in the provision of such services and/or members of the management bodies of any such entities;

8) the nominee and/or his/her close relatives are not, and were not during the last three years, members of the management bodies of any rating agencies which provide or provided services to the company or any of its controlled entities or employees of such agencies involved in the provision of respective services;

9) nominee and/or his/her close relatives are not employees and/or the members of the executive bodies of a legal entity in which any employee and/or member of the company's executive bodies is a member of the board of directors' remuneration committee;

10) the nominee has not served on the board of directors for more than 7 years;

11) the nominee is not associated with the government or a municipality, governmental authority or local self-government body, namely:

a) is not, and was not during the year preceding his/her election to the board of directors of the company, a governmental or municipal employee or an employee of the Bank of Russia;

b) is not representative of the Russian Federation, its subject or a municipality on the board of directors of the company in respect of which the resolution to use a special right to participate in management ("golden share") has been passed;

c) is not, and was not during the year preceding his/her election to the board of directors of the company, an employee or a member of a managing body of any entity under the control of the Russian Federation, its subject or a municipality, or an employee of a governmental or municipal unitary enterprise or institution, where such nominee is proposed to the board of directors of the company in which the Russian Federation, its subject or the municipality

controls more than 5 per cent of the company's share capital or of the voting shares. Such persons do not include employees of entities falling within the category of educational or academic institutions.

To enable independent directors to influence decisions made by the board of directors, the independent directors should account for at least one-third of the board of directors.

An independent director should abstain from performing any action as a result of which he/she may cease to be independent. If, after a person is elected to the board of directors as an independent director, there occurs a change or circumstance as a result of which such person may lose its status of an independent director, he/she shall be obliged to notify the board of directors accordingly, describing the change or circumstance in question.

If the company's board members hold shares in the company, they become more interested in its successful development and growth of its market capitalisation. At the same time, if non-executive, independent directors own, whether directly or not, significant shareholdings in the company, this could affect objectivity and independence of their judgments and conduct.

The board of directors should develop a policy of the company regarding the board members' ownership of shares in the company and shares (interests) in any legal entities controlled by the company. Such policy should include provisions on whether or not an independent director may hold shares in the company and/or shares (interests) in any legal entities controlled by the company and on restrictions on such ownership. The above policy should also provide for the duty of a board member to notify the board of directors of his/her intention to enter into a transaction with shares in the company or shares (interests) in a legal entity controlled by the company and, immediately upon completion of such transactions, that such transactions have been entered into.

Board members should notify the company's board of directors of their intention to take a position in management bodies of other entities and, immediately after their election (appointment) to the management bodies of such other entities, of such election (appointment).

It is recommended to disclose in the company's annual report its policy regarding the board members' ownership of shares in the company and shares (interests) in any legal entities controlled by the company. The company's annual report should list all board members whom the company considers to be independent directors.

*2.1.4. Organisation of work of the board of directors*

2.1.4.1. The chairman of the board of directors should help it carry out the functions imposed thereon in a most efficient manner.

The chairman of the board of directors should ensure efficient organisation of its work and its interaction with other bodies of the company. In this regard, it is recommended to appoint as chairman a person who has an impeccable reputation and extensive experience of work as a top manager. There should be no doubts regarding such person's honesty, integrity, and commitment to the company's interests; in addition, such person should enjoy absolute confidence of the shareholders and board members.

An independent director should be appointed as chairman of the board of directors.

The chairman of the board of directors shall arrange for developing a plan of work for the board of directors, exercising control over implementation of its resolutions, drawing up agendas of board meetings, developing most efficient decisions on various matters on the agenda and, if necessary, shall organise free discussion of such matters.

The chairman shall also ensure that such meetings are held in a constructive atmosphere. Internal documents of the company should provide for the duty of the board chairman to take any and all measures as may be required to provide the board members in a timely fashion with information required to resolve issues on the agenda as well as to take the lead in drafting resolutions on issues under consideration.

The chairman of the board of directors should maintain constant contacts with other bodies and officers of the company with a view to obtaining most comprehensive and reliable information required for decision-making by the board.

The chairman of the board of directors should ensure efficient operation of its committees, in particular, by taking the lead in nominating members of the board of directors to a particular committee based on their professional and personal qualities and taking account of proposals of board members regarding the composition of the committees.

The chairman of the board of directors must be available to communicate with the company's shareholders.

2.1.4.2. Meetings of the board of directors, preparation for them, and participation of board members therein should ensure efficient work of the board.

Board members should actively participate in the meetings of the board of directors and its committees.

It is recommended to hold meetings of the board of directors as needed, usually at least once every six weeks, and in accordance with a plan of work approved by the board of directors. The board of directors should not deviate from the approved plan of its meetings. The work plan should include a list of issues to be considered at respective meetings. Such list, which can be amended, shall be drawn up with due account of opinions of those persons and bodies that may, in accordance with the law and the company's articles of association, request that a meeting of the board of directors be convened.

Within one month from the date of the general shareholders meeting at which the board of directors was elected, it is recommended to hold its first meeting. At such first meeting, the board of directors should elect its chairman, set, confirm or adjust priorities for the company's development, form committees of the board of directors, and elect their chairpersons.

To ensure efficient work of the board of directors, it is recommended to develop a procedure for preparing for and holding meetings of the board of directors and set it out in the company's internal documents.

Meetings of the board of directors shall serve as a platform for decision-making by the board.

Proceedings by the board of directors should be organised in such a way that discussion of issues and making respective decisions would account for at least 80 per cent of time during the board meetings (the remaining time should be allocated to technical issues, such as the reading of questions, reports, and voting). If a decision of the board of directors may have different effects on various groups of shareholders, the board of directors should treat all the shareholders fairly.

The company should allow board meetings to be held both in person and without physical presence of the board members. For the purpose of holding meetings without physical presence of the board members, it is required to set forth a procedure and time limits for sending voting ballots to each board member and receiving completed ballots therefrom. Such time limits should be reasonable and set in such a way that there would be enough time to receive ballots and make decisions on any matters set out therein.

The form of a meeting where the board members are present in person is a preferred form for holding the meetings of the board of directors, since it enables them to discuss the agenda items.

Internal documents of the company should provide that at the board meetings held in person, when determining the quorum and summing up voting results, account should be taken of written opinions on any agenda items presented by board members who are absent from the meeting. Internal documents of the company should also set forth a procedure for receiving written opinions of the company's board members which shall ensure that such opinions can be promptly sent and received (e.g., by telephone or electronic communication).

It is recommended that respective meetings of the board of directors be held in a form which enables the board members to participate in the meetings, discuss and vote on the agenda items remotely, via conference and video-conference calls.

It is recommended that the form of a meeting of the board of directors be determined with due account of importance of issues on the agenda of the meeting. Most important issues should be decided at the meetings held in person. These issues include, among others:

1) approval of priority business areas and a financial and business plan of the company;

2) convening an annual general shareholders meeting and making decisions necessary for its convocation and holding, convocation or refusal to convene an extraordinary general shareholders meeting;

3) preliminary approval of the company's annual report;

4) election and re-election of the chairman of the board of directors;

5) creation and early dismissal of the company's executive bodies if such matter falls within the jurisdiction of the board of directors in accordance with the articles of association of the company;

6) suspension of the one-person executive body of the company and appointment of a provisional one-person executive body, unless the creation (appointment) of the company's executive bodies falls within the jurisdiction of the board of directors in accordance with the articles of association of the company;

7) submission for consideration by the general shareholders meeting of proposals relating to the company's reorganisation (including determination of a conversion ratio for the company's shares) or liquidation;

8) approval of material transactions of the company;

9) approval of the company's registrar and terms and conditions of a contract to be entered with such registrar, as well as termination of such contract;

10) submission for consideration by the general shareholders meeting of a proposal on the transfer of powers of the one-person executive body to a management company or manager;

11) consideration of material aspects of business of any legal entities controlled by the company;

12) issues relating to the receipt by the company of a mandatory or voluntary offer;

13) issues relating to an increase in the share capital of the company (including determining the value of property to be contributed as payment for additional shares placed by the company);

14) review of financial activities of the company during a reporting period (quarter, year); and

15) issues relating to listing and delisting of shares in the company.

The articles of association or internal documents of the company should provide for the right of a shareholder owning a certain percentage of the voting rights to demand that a meeting of the board of directors be convened with a view to initiating a discussion of most important issues relating to the activity of the company. The above threshold should not exceed 2 per cent of the voting shares.

The procedure for convening and preparing for a meeting of the board of directors should enable the board members to get properly prepared for the meeting.

The board members should be notified of the convocation of a meeting of the board of directors, its form, and the agenda of the meeting well in advance, to allow them sufficient time to form their opinions with respect to the matters on the agenda. As a rule, they should be so notified at least 5 calendar days in advance.

Materials relating to the agenda items shall be sent to the board members concurrently with the notice of convocation of the meeting. Before discussing any matters which were considered on a preliminary basis by committees of the board of directors, the board members should be given an opportunity to get familiarised with the findings of the respective committees.

Internal documents of the company should provide for a form of a notice of a board meeting and a procedure for distributing (providing) information ensuring its prompt delivery (including by electronic means) which are most convenient for the board members.

Internal documents of the company should provide that where the agenda of a meeting of the board of directors includes the creation of executive bodies of the company, it is recommended that a nominee to a respective position should provide to the board members his/her written consent to be so appointed. In the absence of such written consent it is recommended to procure that the nominee is present at the meeting of the board of directors in person and orally confirms his/her consent to be appointed to the position in question.

The board members should be given an opportunity to obtain all information required to perform their duties, including information on legal entities controlled by the company.

It is important to procure that the board members are able to obtain all required information as well as to request information from the company and receive answers to their queries. All the board members should have equal rights of access to the documents of the company and those of the legal entities controlled by the latter. It is recommended to presume that if any document requested by a board member contains confidential information, including trade secrets, this should not prevent such document from being provided to the board member. The board member to whom such information is provided shall be obliged to keep it confidential, and such duty should be set forth in the company's internal documents. To confirm that he/she has assumed such duty to preserve the confidential information, the board member might be required to issue a respective written acknowledgement. The company should not refuse to provide information to board members because, in the opinion of the company, the information requested thereby has nothing to do with the agenda of a meeting of the board of directors or the latter's jurisdiction.

The company should have in place a system that ensures regular dissemination of information to the board members about most important developments relating to financial and business activities of the

company and legal entities controlled thereby, as well as about other events that affect the interests of its shareholders.

In addition, the internal documents of the company should provide for a duty of the executive bodies and heads of main structural units of the company to provide, in a timely manner, complete and accurate information on any matters included in the agenda of meetings of the board of directors and upon the request of any board member, and determine liability for failure to comply with the above duty.

It is also recommended to provide that information shall be provided by the executive bodies pursuant to procedures established in the company; in particular, if the company has a corporate secretary, such information should be provided through the corporate secretary of the company.

2.1.4.3. The procedure for determining quorum at a meeting of the board of directors should ensure the participation of a qualified majority of the elected board members and independent directors.

When electing the board of directors, the shareholders assume that the board members would apply their personal and professional skills to a maximum extent. Therefore, each board member should be actively involved in the work of the board of directors, in particular, in discussion of any matters included in the agenda, voting on such matters, and the work of committees of the board of directors. In this regard, the board members are advised to notify the board of directors in advance, if they are unable to participate in its meeting, and specify the reasons for that.

Minutes of a meeting of the board of directors should state how independent directors voted on various matters included in the agenda of the meeting.

The board members, especially those elected for the first time, should be able to get in a short time a sufficient understanding of the company's strategy, its existing corporate governance system, its risk management and internal control system, and the division of responsibilities among the executive bodies of the company, as well as to obtain other essential information about the company’s business.

In this regard, the company should develop a procedure enabling newly elected board members to review such information.

The board members should have sufficient time to perform their duties. Therefore, the board of directors is recommended to develop rules for its members on their participation in work of management bodies of other legal entities. Such rules shall be complied with if a board member is elected (appointed) to a management body of another legal entity.

The company should disclose information about the number of meetings of the board of directors and its committees held during the past year, specifying the form of the meetings and presence of the board members at such meetings, in the company’s annual report and on its website.

In order to take account, to a maximum possible extent, of opinions of all the board members when making decisions on most important issues relating to the company’s business, it is recommended to provide, in the company's articles of association, that decisions on such matters shall be made at a meeting of the board of directors by a qualified majority of at least three-quarters of their votes.

Such issues should include:

1) approval of priority business areas and a financial and business plan of the company;

2) approval of a dividend policy of the company;

3) submission for consideration by the general shareholders meeting of proposals on the company's reorganisation or liquidation;

4) submission for consideration by the general shareholders meeting of proposals to increase or reduce the share capital of the company, determination of the price (value) of property to be contributed as payment for additional shares being placed by the company;

5) submission for consideration by the general shareholders meeting of any issues relating to changes to the company's articles of association, approval of material transactions of the company, listing and delisting of the company's shares;

6) determination of the price of material transactions of the company;

7) consideration of material issues relating to activities of any legal entities controlled by the company;

8) consideration of recommendations relating to a voluntary or mandatory offer received by the company; and

9) consideration of recommendations relating to the amount of dividends payable on shares of the company.

2.1.4.4. The board of directors should form committees for preliminary consideration of most important issues of the company's business.

The creation of committees of the board of directors is an essential condition of its effective functioning. Such committees are meant to consider, on a preliminary basis, most important issues and make recommendations to the board of directors enabling the latter to make decisions on matters within its jurisdiction. The decision to establish a committee of the board of directors shall be made by the board. Based on the key functions of the board of directors, as provided for by the company articles of association or its internal document regulating the activity of the board, it is advisable to provide that the board of directors should form, on a priority basis, an audit committee, a human resources committee (committee on nominations and appointments), and a remuneration committee. The board of directors may also establish other permanent or temporary (ad hoc) committees as it deems necessary, in particular, a strategy committee, a corporate governance committee, an ethics committee, or a risk management committee.

The company should disclose information about the committees established therein, as well as information on recommendations made by the committees.

In order to regulate the activities of its committees, the board of directors should approve an internal document outlining the tasks of each committee, a procedure for their creation and functioning.

The composition of the committees should be determined in such a way that it would allow a comprehensive discussion of issues under review taking account of differing opinions. It is recommended that each committee should consist of at least three board members.

Since participation in the work of a committee requires board members to thoroughly review each issue being discussed by the committee, it is recommended to limit the possibility of participation of board members in the work of several committees.

It is recommended that independent directors constitute a majority of members of the committees, and where this is not possible for objective reasons, such majority should be constituted by independent and non-executive directors.

If necessary, experts and consultants may be retained on a temporary or permanent basis to work for a committee; such experts and consultants shall have no right to vote when decisions are made on any matters within the jurisdiction of the committee.

Given the specific nature of issues considered by the audit committee, the human resources committee (committee on nominations and appointments) and the remuneration committee, it is recommended that persons who are not members of the above committees could attend their meetings only at the invitation of their chairmen.

The chairman of a committee plays the main role in organising its work. The chairman's main task is to ensure fairness when developing the committee's recommendations for the board of directors. Therefore, it is recommended that the committees of the board of directors be chaired by independent directors. Chairmen of the committees should inform the chairman of the board of directors of the work of their committees.

The committees should present reports on their activities to the board of directors on an annual basis.

2.1.4.4.1. The audit committee.

The audit committee shall be established with a view to facilitating the efficient performance of the functions of the board of directors relating to its control over financial and economic activities of the company.

The main objectives of the audit committee are as follows:

1) in relation to financial statements:

a) monitoring of completeness, accuracy, and reliability of the company's financial statements;

b) analysis of material aspects of accounting policies of the company;

c) participation in consideration of material issues and opinions in relation to the company's financial statements;

2) in relation to risk management, internal control, and corporate governance:

a) control of safety and efficiency of the risk management and internal control system and the corporate governance system, including evaluation of efficiency of internal controls, risk management procedures, and corporate governance components as well as drafting proposals for their improvement;

b) review of policies relating to risk management and internal control;

c) monitoring of compliance by the company with the requirements of law and ethical standards, rules, and procedures of the company, and requirements of exchanges;

3) in relation to internal and external audits:

a) ensuring the independence and objectivity of the internal audit function;

b) review of policies relating to internal auditing (regulations on internal auditing);

c) review of a plan on internal audits;

d) consideration of issues relating to the appointment (dismissal) of the head of the internal audit department and the amount of his/her remuneration;

e) review of existing authority or budget restrictions on implementation of the internal audit function which can adversely affect its efficiency;

f) evaluation of the efficiency of the internal audit function;

g) consideration of issues relating to the need for the internal audit function (if there is no such function in the company) and provision of the findings to the board of directors;

h) evaluation of independence and objectivity of the external auditor of the company, including evaluation of proposed auditors of the company, development of proposals on appointment, re-election and dismissal of the external auditor of the company, on payment for its services and terms and conditions of its engagement;

i) control over external audits and evaluation of the quality of an external audit and the auditor's report; and

j) ensuring efficient cooperation between the internal audit department and the external auditor of the company;

4) in relation to prevention of bad faith action on the part of the company's employees and third parties[6]:

a) monitoring the efficiency of a system of warnings about potential bad faith actions on the part of any of the company's employees and third parties, as well as other violations in the company;

b) control over special investigations relating to potential fraud or misuse of insider or confidential information; and

c) monitoring measures taken by the executive bodies of the company in connection with the receipt of information about potential bad faith actions on the part of any of the company's employees and other violations.

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It is advisable to include in the audit committee independent directors only.

It is recommended that at least one committee member who is an independent director should have expertise in preparing, auditing, analysing, and evaluating financial statements.

The company should publicly disclose an opinion prepared by the audit committee and evaluating an audit report submitted by the external auditor, as well as information on whether the committee includes an independent director with expertise in preparing, auditing, analysing, and evaluating financial statements.

The audit committee may invite to its meetings, as appropriate, any officers of the company, the head of the internal audit department and representatives of the external auditor of the company, as well as retain, on a permanent or temporary basis, independent consultants (experts) who shall take part in the

[6] Including negligence, fraud, bribery and corruption, commercial bribery, abuses, and various illegal activities that are detrimental to the company.

work of the audit committee for the purpose of preparing materials in relation to any matters included in the agenda.

Individual meetings of the audit committee should be held, or its chairman should meet with the head of the internal audit department of the company, at least once a quarter to discuss any matters falling within the jurisdiction of the internal audit.

2.1.4.4.2. Remuneration committee.

The remuneration committee helps establish in the company efficient and transparent practices in relation to remuneration paid to members of the board of directors, the executive bodies, and other key managers of the company.

The remuneration committee should consist only of independent directors. The chairman of the board of directors should not be chairman of the remuneration committee.

The objectives of the remuneration committee should include:

1) development and periodic review of the company's policy on remuneration due to the members of the board of directors and the executive bodies and other key managers of the company, including development of parameters of short and long-term incentive programmes for the members of the executive bodies;

2) control over implementation of the company’s remuneration policy and various incentive programmes;

3) preliminary assessment of work of the executive bodies and other key managers of the company upon the results of a year in the context of the criteria set forth in the remuneration policy, as well as preliminary assessment of whether or not the above persons achieved their goals under the long-term incentive programme;

4) development of terms and conditions of early termination of employment contracts with members of the executive bodies and other key managers of the company, including all financial obligations of company and conditions on which such obligations shall be assumed;

5) selection of an independent consultant to advise on the policy of remuneration due to the members of the executive bodies and other key managers of the company, and where the policy of the company requires it to hold tender procedures for selecting such consultant, setting the terms and conditions of the tender and carrying out the functions of the tender commission;

6) drafting recommendations to the board of directors in relation to the setting of the amount of remuneration and principles of payment of bonuses to the corporate secretary of the company, as well as preliminary assessment of his/her work upon the results of a reporting year and proposals on bonuses to be paid to the corporate secretary; and

7) drawing up a report on practical implementation of the policies on remuneration due to the members of the executive bodies, other key managers of the company, and the members of the board of directors; such report shall be included in the annual report and other documents of the company.

2.1.4.4.3. Nominating committee.

The nominating committee helps the board of the director achieve a higher professional level and work more efficiently, by making recommendations in the course of proposing nominees to the board of directors.

Most committee members must be independent directors. If the chairman of the nominating committee is also the chairman of the board of directors, he/she may not carry out the functions of the chairperson at a meeting of the committee which considers plans regarding successor chairmen of the board of the directors or recommendations on his/her election.

If the nominating committee cannot be formed, its functions may be delegated to another committee of the board of directors, for example, to the corporate governance committee or the remuneration committee.

The objectives of the nominating committee should include:

1) analysis of the composition of the board of directors in terms of professional expertise, experience, independence, and involvement of its members in the work of the board, as well as determining priority areas for improving the composition of the board;

2) interaction with the shareholders with a view to finding those who can be nominated to the board of directors. Such interaction should be aimed at forming the board of directors in such a way that it would be most suitable for the purpose and objectives of the company and should not be limited to largest shareholders only;

3) analysis of professional qualifications and independence of all nominees to the board of directors, based on all information available to the nominating committee; drafting and public dissemination of recommendations to the shareholders in respect of their voting in the election of the board of directors;

4) description of individual responsibilities of directors and the chairman of the board of directors in the course of their work for the board, including time they are expected to spend on issues related to the company's activities, both at and outside the board meetings, in the course of planned and unplanned work. Such descriptions (which shall be prepared separately for the board members and the chairman of the board of directors) must be approved by the board of directors and provided to each new board member and the chairman for review after their election;

5) carrying out a self-evaluation or external evaluation of the board of directors and its committees from the standpoint of their performance as a whole and individual contributions of directors to the work of the board of directors and its committees, drafting recommendations to the board of directors on improving proceedings of the board and its committees, preparing a report on the results of such self-evaluation or external evaluation which shall be included in the company’s annual report;

6) preparing an introductory programme for newly elected board members designed to help them get familiarised, in an efficient manner, with existing business practices, organisational structure, key assets and strategy, and key employees of the company, as well as proceedings of the board of directors; exercising control over practical implementation of the introductory programme;

7) analysis of current and anticipated needs of the company in terms of professional qualifications of the members of its executive bodies and other key managers of the company as may be required to ensure its competitiveness and development; making plans regarding their successors;

8) drafting recommendations for the board of directors on nominees for the position of the corporate secretary of the company;

9) drafting recommendations for the board of directors on nominees for positions of members of the executive bodies and other key managers of the company; and

10) preparing a report on the results of the nominating committee's work which shall be included in the annual report and other documents of the company.

Self-evaluation methodologies are determined, and an independent evaluation consultant is selected, on a preliminary basis, by the nominating committee and subsequently approved by the board of directors.

2.1.4.4.4. The corporate governance committee.

The corporate governance committee promotes the development and improvement of corporate governance in the company by considering, on a preliminary basis, corporate governance issues related to the jurisdiction of the board of directors, management of relationships between the shareholders, the board of directors, and the executive bodies, as well as interaction with legal entities controlled by the company and other stakeholders.

2.1.4.4.5. The ethics committee.

The ethics committee helps the company comply with the ethical standards and build trust in the company. The committee confirms that the company's activities correspond to the ethical principles which may be set out in its corporate code of ethics, proposes changes to the above code, expresses its opinion on potential conflicts of interest involving employees of the company, and analyses causes of conflicts arising from failures to comply with ethical rules and standards.

***2.2. Executive bodies of the company.***

The executive bodies of the company should efficiently manage its daily activity.

The company's executive bodies, which include the collective executive body (management board, directorate) and the one-person executive body (director, general director), are a key element of the corporate governance structure.

As provided for by law, the executive bodies are in charge of daily management of the company's activities, which means that they are responsible for implementation of its goals, objectives, strategies, and policies.

The executive bodies must act in the best interests of company, that is, to manage its activities in such a way as to ensure the receipt of dividends by its shareholders and enable the company to develop.

The executive bodies should act in accordance with a financial and business plan of the company which shall be approved annually by the board of directors. The executive bodies should get approval of the board of directors in relation to any transactions which are inconsistent with the financial and business plan. Therefore, the company should set out, in its internal documents, a procedure for entering into any transactions outside the scope of its financial and business plan.

*2.2.1. The executive bodies of the company should take actions that are expected in a similar situation under similar circumstances of a good manager.*

The person acting as (performing the functions of) the one-person executive body (the general director, the managing company, or manager) and the members of the collective executive body (management board, directorate) must act reasonably and in good faith in the interests of the company and its shareholders.

The duty of such persons to act reasonably and in good faith in the interests of company means that, when exercising their rights and performing their duties set out in the articles of association, they must

act with due care and diligence to be expected of a good manager in a similar situation under similar circumstances.

To act in the best interests of the company, its executive bodies should enjoy confidence of the shareholders. Therefore, one should rule out the possibility of any outside influence thereon aimed at inducing the executive bodies to perform any action or make any decision to the detriment of the company and its shareholders. In this regard, every reasonable effort should be made to avoid such situations.

In particular, members of the executive bodies, as well as their close relatives should not accept gifts (other than symbolic tokens of attention in accordance with generally accepted rules of courtesy and souvenirs during official events) or receive other direct or indirect benefits provided with a view to influencing actions of the executive bodies or their decisions, which should be specifically reflected in the company's internal documents.

As part of their duties, members of the company's executive bodies should ensure that the company operates in strict accordance with the law, its articles of association and internal documents, as well as in accordance with the policies pursued by the board of directors. The members of the company's executive bodies must ensure that the company refrains from any illegal actions, payments or practices and should immediately report any such facts in writing to the board of directors of the company. It is recommended that the executive bodies provide monthly reports on their activities to the board of directors.

In addition, the executive bodies should organise work within the company in such a way that they would be able to use a system for collecting, processing and providing timely information on quantitative financial and material indicators of the company's business for the purpose of making informed managerial decisions.

When making decisions, the executive bodies should take into account financial, social, and environmental aspects of the company's business.

Since members of the executive bodies of the company manage its daily activity, that is, make decisions on matters arising in the course of its business activities on a daily basis, they should have enough time to properly perform their duties.

**2.2.2. Membership of the executive bodies of the company should ensure that the functions entrusted to them are carried out in a most efficient way.**

The company's executive bodies should act in its best interests. Personal qualities of members of the executive bodies should not give rise to any doubt as to whether they would act in the best interests of the company; therefore, it is recommended to nominate to such positions only those individuals who have an excellent reputation.

A conflict of interest resulting from participation of a member of the company's executive bodies in management bodies of other legal entities competing with the company or from other affiliation of such person with any of the company's competitors is a reason to doubt as to whether such person will act solely in the interests of the company.

It is recommended to include in agreements with the one-person executive body and members of the management board of the company a very detailed list of their rights and duties. Any such agreement should list grounds for its termination and provide for the duty of a member of an executive body of the company to notify it well in advance of such person's resignation, a procedure for handover of responsibilities to his/her newly appointed successor, and a possibility to hold positions in other entities while performing duties of a member of the executive body of the company.

*2.2.3. The company should form a collective executive body (management board, directorate)*

For the sake of efficient management of the company's daily activity, it is recommended to provide in its articles of association that it shall form the collective executive body (management board).

When determining the number of members of the management board of the company, one should do so based on the assumption that the number of the management board members should be optimal from the standpoint of productive and constructive discussion of any issues considered by the management board and making timely and balanced decisions.

It is recommended that the principles of forming the company's management board be reflected in its internal documents approved by the board of directors.

If the formation of the management board falls within the jurisdiction of the board of directors, the company is recommended to set forth, in its articles of association, grounds for deeming appointed members of the management board to be no longer its members, in particular, in connection with their death, incapacity, or disqualification, as well as to provide for a procedure for appointing new management board members instead of previously appointed ones who ceased to be such members.

The jurisdiction of the collective executive body should include most complex issues relating to the management of the company's daily activity. These should include issues arising outside the normal course of business of the company and any issues which, though they arise in the normal course of business, materially affect the company or require collective approval:

1) making arrangements for drafting most important documents of the company, namely, a document on priority areas of its operations and a financial and business plan of the company to be approved by its board of directors;

2) approval of the company's internal documents regulating the activities of its structural units, on matters falling within the jurisdiction of the executive bodies;

3) approval of material transactions of the company and legal entities controlled thereby the approval of which does not fall within the jurisdiction of the general shareholders meeting or the board of directors of the company;

4) decisions on appointment of heads of branches and representative offices of the company;

5) review of material aspects of activities of any legal entities controlled by the company that do not fall within the jurisdiction of the company's board of directors;

6) approval of internal labour policies and job descriptions for all categories of employees of the company;

7) approval of an internal document regulating imposition of sanctions and provision of incentives;

8) agreeing upon the terms of financial remuneration and basic terms and conditions of employment contracts with the heads of structural units of the company; and

9) considering and making decisions on the company entering into collective agreements and arrangements.

2.2.3.1. Organisation of meetings of the management board shall ensure its efficient work.

It is impossible to carry out the duties imposed on the executive bodies without holding scheduled meetings of the management board; such meetings should be held at least once a week.
Since the management board is designed to address current issues, any of its members may propose to convene an extraordinary meeting of the management board and propose issues that, in his/her opinion, should be considered at such meeting.

The company must provide an environment that enables all members of the management board to receive notices of its upcoming meeting in due time.

A notice of a forthcoming meeting shall allow sufficient time for members of the management board to get prepared for the meeting on all issues on its agenda.

Under the legislation, it is not required to inform the members of the management board about the agenda of an upcoming meeting. However, if they get familiarised with the issues on the agenda in advance, this will help make the discussion of such issues more constructive and, therefore, can significantly improve the efficiency of work of the management board. Thus, it is recommended to send a meeting agenda to each member of the management board along with a notice of the meeting.

The members of the management board should be provided with complete and accurate information in sufficient time to review it. If required information was provided to members of the management board with a delay and they did not have enough time to review it, it is recommended to postpone the discussion, even if this requires the management board to convene an extraordinary meeting.

Minutes of a meeting of the management board should be provided to its members, members of the board of directors, the internal audit commission (internal auditor), and the external auditor of the company on their request.

A member of the management board shall not be allowed to transfer his/her votes to another person, including to another member of the management board of the company.

*2.2.4. When transferring the powers of the one-person executive body to a management company (manager) shareholders should have complete information about such management company (manager).*

There is no doubt that the transfer of the powers of the one-person executive body to a management company (manager) makes the corporate governance system of the company more complex. In this regard, it is better to manage the company's daily activity in a traditional way, that is, through the customary one-person executive body (president, general director).

If the company intends to transfer the powers of the one-person executive body to a management company (manager), the board of directors must provide a detailed justification of the need to do so, inform about the risks associated with such transfer, and provide the shareholders with full information about the management company, the composition of its shareholders (participants) and management bodies, and material terms and conditions of the interaction with the management company (manager).

It is not recommended to transfer the powers of the one-person executive body of the company to a management company which is controlled by the company.

If it is proposed to retain, as the company's management company, an entity controlled by any persons that control the company, the terms and conditions of a respective contract with such entity, as well as justification for the transfer of the powers of the company's one-person executive body to the management company should be reviewed, on a preliminary basis, by the company's independent

directors; should their opinion be negative, the entity in question should not be proposed for consideration by the general shareholders meeting.

***2.3. Responsibility of members of the board of directors and the executive bodies of the company.***

The members of the board of directors, general director (management company, manager), and members of the management board shall be liable for damages caused to the company by their culpable acts.

The company should actively use the right to bring actions in court for damages to be compensated by such persons, not only in order to get reimbursement for its losses but also to encourage such persons to perform their duties properly in accordance with the interests of the company.

However, it must be borne in mind that managing a company is a complex process involving a possibility that decisions made by the company's bodies as a result of their reasonable and bona fide performance of their duties will still turn to be wrong and entail negative consequences for the company.

Since one's fault constitutes grounds for liability of a board member, the general director (management company, manager) or a member of the management board of the company, such person will be, or will not be, held responsible depending on how such person acted when performing his/her duties, that is, on whether or not he/she acted reasonably and in good faith, i.e. with due care and diligence that should be expected of a good manager, and whether or not he/she used the best efforts to properly perform his/her duties. A board member, the general director (management company, manager) and a member of the management board is deemed to act reasonably and in good faith, if he/she is not personally interested in making a particular decision and has carefully reviewed all information required to make the decision; other circumstances should also attest to the fact that such person has acted solely in the interests of the company.

The company should take steps to dismiss board members, the general director (management company, manager), or members of the management board who are responsible for inflicting losses and hold them responsible for their failure to comply with their obligations to the company. It is advisable for the company to maintain, at its own expense, liability insurance for such persons; then, if losses are inflicted on the company or any third party through any actions of board members, the general director (management company, manager), or members of the management board, it will be possible to get reimbursement of such losses. Liability insurance will not only increase effectiveness of civil liability but will also persuade competent professionals to become board members where such professionals would otherwise be afraid of major claims that could be brought against them.

To create an effective mechanism of accountability of members of the board of directors and the management board, the company should maintain and keep, along with the minutes, transcripts of meetings of the board of directors (management board) containing information on votes cast by each member of the board of directors (management board) on any issues on its agenda.

Dissenting opinions of members of the board of directors should be made part of the minutes of proceedings of the board of directors and must be attached to them (in particular, they should be provided to the shareholders).

## III. CORPORATE SECRETARY OF THE COMPANY

In accordance with its corporate governance system (practice), there should be the position of a corporate secretary in the company.

Companies need to have a corporate secretary because of increasing scope of work relating to the compliance with internal rules and procedures prescribed by law and their own internal documents and aimed at protecting the rights and interests of their shareholders; imposition of stricter liability on companies for non-compliance with and violations of rules of applicable law and their internal documents; and an increase in workload which needs to be done to help the board of directors carry out its functions.

### *3.1. Status of the corporate secretary*

The corporate secretary is an officer of the company who ensures that the company complies with the existing legislation, its articles of association, and internal documents guaranteeing the rights and legitimate interests of its shareholders. The corporate secretary acts with a view to improving efficiency of management of the company's development in the interests of its shareholders, increasing its attractiveness for investors, ensuring the growth of its capitalisation, and increasing its profitability.

To perform his/her tasks, the corporate secretary should be sufficiently independent of the executive management of the company. It is not recommended to allow the corporate secretary to perform his/her tasks concurrently with any other functions in the company.

Independence of the corporate secretary is achieved by providing that the following questions fall within the jurisdiction of the board of directors:

1) approval of a nominee to the position of the corporate secretary and his/her dismissal;

2) approval of a Regulation on the Corporate Secretary;

3) evaluation of performance of the corporate secretary and approval of reports on his/her work; and

4) payment of additional remuneration to the corporate secretary.

The board of directors of the company should approve the Regulation on the Corporate Secretary setting forth:

1) the requirements to a nominee to the position of the corporate secretary;

2) a procedure for appointing a corporate secretary and his/her dismissal;

3) lines of reporting for the corporate secretary and a procedure for his/her interaction with the management bodies and structural units of the company;

4) the functions, rights, and duties of the corporate secretary;

5) the terms and conditions of and a procedure for paying remuneration to the corporate secretary; and

6) responsibility of the corporate secretary.

To enable the corporate secretary to carry out the functions assigned thereto, the company may establish a separate corporate secretary division. A procedure for the latter's establishment and operations should be set forth in the Regulation on the Corporate Secretary.

***3.2. Procedure for appointment and dismissal of the corporate secretary.***

In order to ensure the independence of the corporate secretary and proper performance of his/her functions, the articles of association of the company should provide that the corporate secretary shall be appointed and dismissed by the one-person executive body of the company solely on the basis of a respective resolution passed by the board of directors.

The Regulation on the Corporate Secretary should provide that the company's corporate secretary shall report directly to the board of directors.

***3.3. Requirements to a nominee to the position of the corporate secretary***

The corporate secretary shall have knowledge, experience, and qualifications sufficient for performance of his/her duties, as well as necessary personal qualities.

It is recommended to appoint as corporate secretary a person who has a degree in law, economics or business and work experience of at least 5 years, including experience in corporate management or managerial positions of at least 2 years.

The corporate secretary must have an impeccable reputation.

If the corporate secretary is associated with the company or its officers in such a way that such association might affect how the corporate secretary carries out his/her functions, this may give rise to a conflict of interest. Therefore, it is not advisable to appoint as corporate secretary a person who is affiliated with the company or forms part of the same group as affiliates of the company. If there is a conflict of interest, the corporate secretary must notify the chairman of the board of directors accordingly.

The corporate secretary should take care of improving his/her skills and expertise on a regular basis. In addition, in order to maintain regular professional interactions, the corporate secretary should participate in and be a member of a professional association of corporate secretaries.

The company should disclose on its website and in its annual report information on the corporate secretary which shall be as detailed as that disclosed in relation to board members and members of the executive bodies of the company.

***3.4. The functions and powers of the corporate secretary.***

The functions of the corporate secretary should include:

1) making arrangements for preparing for and holding general meetings of shareholders of the company;

2) providing required support to make work of the board of directors and its committees possible;

3) ensuring disclosure of information and keeping corporate documents of the company;

4) ensuring interaction of the company with its shareholders and taking part in prevention of corporate conflicts;

5) ensuring interaction of the company with regulators, market makers, its registrar, and other professional participants of the securities market;

6) ensuring compliance (and exercising control over compliance) with procedures provided for by the legislation and the company's internal documents and ensuring the exercise of rights and protection of legitimate interests of the shareholders;

7) promptly informing the board of directors of any and all identified violations of law or internal documents of the company; and

8) participating in improving the corporate governance of the company.

To perform his/her functions, the corporate secretary should be vested with the powers required to:

1) request and receive documents of the company;

2) propose issues for consideration by the company's management bodies, within his/her jurisdiction to do so; and

3) request that officers and employees of the company comply with the legislation, the articles of association, and internal documents of the company.

## IV. SYSTEM OF REMUNERATION DUE TO BOARD OF DIRECTORS, THE EXECUTIVE BODIES, AND OTHER KEY MANAGERS OF THE COMPANY

It is recommended that the company should comply with a policy of remuneration and/or compensation due to board members, the executive bodies, and other key managers of the company which shall be developed and adopted by the board of directors.

### *4.1. Main objectives of the system of remuneration of board members*

The main objectives of the system of remuneration of the board members shall be as follows:

1. to enable the board of directors to attract and retain highly skilled directors;

2. to harmonise financial interests of directors with long-term financial interests of the shareholders; and

3. to ensure full transparency of all financial benefits granted to board members by providing a clear explanation of existing approaches and principles, as well as disclosing detailed information on all types of payments, benefits, and privileges made and granted to members of the board of directors in consideration of performance of their duties.

### *4.2. Approaches to setting the amount of remuneration, compensation, and other payments to board members*

*4.2.1. Fixed annual fee.*

A fixed annual fee shall be a preferred form of monetary remuneration of the board members. A fixed fee should reflect expected time required to be spent by a director in connection with his/her preparation for and participation in board meetings. It is desirable to set the amounts of fixed fees due to directors depending on the scope of duties of a particular director in the board of directors so that such fee would be set with due account of additional time associated with the carrying out of functions of the chairman of the board, a committee member, the chairman of a committee, or a senior independent director.

It is advisable for the company to develop and publish a clear policy with regard to attendance of meetings of the board of directors; such policy should be included in a Regulation on the Board of Directors or a Regulation on Remuneration of the board members. Under the policy of attendance, the company may provide that payment of the full amount of an annual fixed fee shall be conditional on a certain level of attendance in the form of one's presence in person at the meetings of the board of directors held during a respective year. If a director is paid his/her fixed fee during a year (whether monthly or quarterly), and upon the results of the year his/her attendance record turns to be below a minimum threshold set by the company, then, in accordance with its attendance policy, the company may request that the director repay to it, in part or in full, the fee paid to him/her during the year. Any requirements to attendance of the meetings and terms and conditions of payment of a fixed fee may apply to the incumbent board members only if such requirements had been approved and published prior to the general shareholders meeting at which such incumbent board members were elected.

Regardless of the contents of the company's policy on attendance of the board meetings, it is recommended that data on individual attendance be annually disclosed in the company's annual report and on its website.

*4.2.2. Fee for attending meetings.*

It is not advisable to pay a fee for participation in individual meetings of the board of directors or its committees. Attendance of board meetings is a basic duty of a director and shall not be rewarded as respective time spent by the director should be taken into account when determining the amount of the director's fixed annual fee.

*4.2.3. Short-term incentives.*

It is not advisable to use any form of short-term incentives in respect of board members (non-executive directors) because this runs contrary to the principle of harmonisation of financial interests of the directors and long-term interests of the shareholders. Short term incentives include any incentive programme which involves an evaluation of performance and paying bonuses upon the results of a period not exceeding three years.

*4.2.4. Ownership of shares in the company.*

A recommended approach to motivating directors of companies whose shares are traded on an organised securities market is to create incentives for them through their ownership of shares in the company. Part of annual fixed fees due to directors may be paid in the form of the company's shares, and the title to such shares should pass to a director immediately, without being conditioned on achievement of some future targets. This is a key difference as compared with the principles of motivating executive management where such conditionality constitutes a preferred approach.

If the company has a practice of paying remuneration to the board members in the form of its shares, the board of directors, upon the recommendation of the remuneration committee, shall propose to the general shareholders meeting to include in the Regulation on Remuneration due to the board of directors clear and transparent requirements regulating the ownership of shares by the board members.

These requirements should encourage them to increase their shareholdings and own the shares on a long-term basis, for example, by setting forth a minimum period of ownership or a minimum size of shareholding, or a combination of both. From the standpoint of long-term motivation, it would be best to create such a system of requirements that would allow a director to dispose of a majority of his/her shares in the company only upon the expiration of a certain period of time (at least one year) from the date when he/she ceases to be a member of the board of directors of the company.

It is recommended that the policy on the ownership of shares in the company by the board members prohibit the directors from using any hedging arrangements mitigating the motivational effect of long-term ownership of shares.

The company should provide and put in place procedures for monitoring compliance by the directors with the requirements on their ownership of shares and hedging arrangements.

*4.2.5. Compensation of expenses.*

Board members shall be reimbursed for their expenses incurred when travelling to the place of a board meeting and in connection with other trips undertaken as part of work of the board of directors and its committees.

It is not recommended to compensate the board members for any other expenses or provide, in relation to (non-executive) directors, for any pension contributions, insurance programmes (other than directors' liability insurance and insurance related to travelling in connection with the board of directors' work), investment programmes, or other benefits and privileges. The company should establish and publish a policy on compensation of expenses containing information on reimbursable costs and service levels which may be claimed by a board member when carrying out his/her duties.

*4.2.6. Severance pay.*

It is not recommended to provide, in relation to (non-executive) board members, for any allowance or severance payment in the event of his/her dismissal in connection with a change of control over the company or other circumstances.

***4.3. Approaches to setting the amount of remuneration, compensation, and other payments due to the members of the executive bodies and other key managers of the company.***

Acting on behalf of the shareholders and in accordance with their long-term interests, the board of directors, with the support of the remuneration committee, shall develop, approve, and ensure supervision over implementation in the company of a remuneration system for key members of the company's executive bodies.

A level of remuneration of the executive bodies should be sufficient to attract, retain, and motivate managers who have required professional skills and qualities enabling them to manage the company efficiently. To achieve these goals, the company should not pay to its managers remuneration in excess of a required level. When creating and revising the system of remuneration of key members of the executive bodies, the remuneration committee of the board of directors shall review and provide the board of directors with recommendations regarding each component of the remuneration system and proportions between such components, in order to ensure a reasonable balance between short-and long-term performance results. For this purpose, short-term performance results shall mean any

performance results for a period not exceeding three years, and long-term performance results shall mean those for a period of at least five years.

The remuneration committee and the board of directors should carefully analyse the relative amounts of variable and fixed components of the remuneration system when creating the system and making adjustments to it. If variable components of the system of remuneration of key managers constitute its significant part, it is recommended that a long-term incentive programme should account for at least 50 per cent of the target amount for the variable component of remuneration. In order to ensure a balance between short-term and long-term incentives, the company can also provide for deferred payment of a bonus upon the results of a year, where such bonus will be paid, for example, in equal instalments over the next three years.

*4.3.1. Fixed fee.*

In determining the amount of a fixed fee, the company should take into account all benefits and privileges provided to its key managers as well as sources of income related to their membership in management bodies of other companies, including subsidiaries and dependent companies.

When conducting a comparative analysis of comparable companies, the remuneration committee should take a balanced approach to the positioning of a target level of remuneration. Desire to set remuneration amounts at a level higher than in comparable companies is not always justified and can contribute to a spiral increase in remuneration paid in the industry.

*4.3.2. Short-term motivation.*

The company should have in place a short-term incentive system for its key managers in order to motivate their daily productive work. It is recommended to evaluate the results of the short-term incentive programme for a year or for a period of one to three years, if required so by virtue of the company's business. It is not recommended to evaluate the results of the company's performance or individual performance of its executive bodies for a period of up to one year.

The remuneration committee should develop, with the help of independent consultants retained for this purpose as may be necessary, a set of customised key performance indicators which will form basis for the short-term motivation system. The selected indicators should be relevant and related to the long term strategy of the company (group), and their target values should be demanding. The remuneration committee shall present key components of the short-term incentive programme for approval by the board of directors of the company and subsequently provide oversight of the introduction and implementation of the programme.

*4.3.3. Long-term motivation.*

The remuneration committee should consider whether it is advisable for the company to put in place a long-term incentive programme, based on expected efficiency of such incentives, objectiveness of long-term indicators, and cost of implementation of the programme under the circumstances. If shares in the company are freely traded, it will be advisable for the company to put in place a long-term incentive programme involving the company's shares or derivative instruments.

It is recommended to provide shares or derivative financial instruments under the long-term incentive programme uniformly, at one-year intervals. For this purpose, it is advisable to provide that the right to dispose of shares or exercise options shall arise no earlier than in three years from the date when such shares or instruments were provided. It is recommended that the right to dispose of or exercise the same, upon the expiration of a respective period, be conditional on the achievement of certain targets by the company (or a group of entities which includes the company), including non-financial targets, if applicable.

*4.3.4. Severance pay.*

It is recommended that the amount of severance pay payable in the event of early dismissal of key members of the executive bodies (so-called "golden parachutes") should not exceed two times their annual fixed fee.

To pay greater amounts of severance pay to members of the executive bodies, one should provide strong justification for such payments; in addition, a resolution to this effect should be passed at a board meeting, and information about the reasons for such high fees should be disclosed to the public.

It is not recommended to provide for the right to dispose of any shares or exercise any options granted under long-term incentive programme early, in the event of early dismissal of members of the executive bodies.

*4.3.5. Incentive payments wrongfully obtained.*

If the company has identified any facts of manipulation of reported indicators or other bad faith actions on the part of any members of the executive bodies which were aimed at achieving formally any of the targets set forth in its incentive programmes and which were detrimental to the long-term interests of its shareholders, the company should seek to ensure that any funds wrongfully obtained in such manner are repaid to it.

*4.3.6. Taking account of risks.*

It is desirable to evaluate performance results of the company (its group) in the framework of its short-term and long-term incentive programmes with due account of the risks which are faced by the company (the group), in order to avoid creating incentives which would induce one to make risky management decisions which might be detrimental to the long-term interests of the shareholders. It is the more so for credit institutions that should act on the basis of the principles set forth by the Financial Stability Board and the Basel Committee on Banking Supervision when developing methodologies and procedures for adjusting performance results with the account of the risks faced by a company (or a group of entities which includes the company).

***4.4. Disclosure of the remuneration policy.***

The company should disclose information about its policy of remuneration due to its board members, including the objectives, terms and conditions of payment of such remuneration, as well as information on remuneration and/or compensation paid to each board member and their ownership of shares in the company, in its annual report and on its corporate website.

## V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The system (practice) of corporate governance should ensure the establishment and efficient functioning of a risk management and internal control system in order to protect the rights and legitimate interests of shareholders.

### *5.1. Risk management and internal control system*

The company should have in place an efficient risk management and internal control system designed to provide reasonable confidence that the company's goals will be achieved.

The objectives of the risk management and internal control system are as follows:

1) achieving the strategic objectives of the company;

2) ensuring the efficiency and effectiveness of its financial and economic activity;

3) identifying risks and managing them;

4) ensuring the efficient use of resources;

5) safeguarding the assets of the company;

6) ensuring completeness and accuracy of financial, accounting, statistical, administrative, and other reports; and

7) ensuring compliance with the law and the company's internal policies, regulations, and procedures.

When creating the risk management and internal control system, the company should use generally accepted concepts and practices in the area of risk management and internal control.[7]

To be efficient, a risk management and internal control system should be created at various levels of the company's organisational structure:

1) at the strategic level -the board of directors and its committees;

2) at the tactical level – the executive bodies, the internal audit department, the internal audit commission;

3) at the organisational level – the company's units; and

4) at the operational level -the employees of the company.

For the purpose of establishing the risk management and internal control system, the role and tasks of the company's board of directors, executive bodies, internal audit commission, internal audit department, and other units, as well as their interaction should be clearly set out in internal documents of the company.

The company's board of directors shall be in charge of and responsible for determining the principles of and approaches to organisation of the system of risk management and internal control in the company. The board of directors shall annually arrange for evaluation of efficiency of the risk management and internal control system and report on the results of such evaluation to the shareholders in the annual report of the company. The executive body shall ensure the establishment and continuing operation of the efficient risk management and internal control system in the company.

[7] "Internal Control -Integrated Framework" (COSO), "Enterprise Risk Management -Integrated Framework" (COSO), the Committee of Sponsoring Organisations of the Treadway Commission; International Standard ISO 31000 "Risk management -Principles and Guidelines, " International Standard ISO 31010 "Risk management -Risk assessment techniques, " and other.

The company's executive bodies shall distribute the powers, duties, and responsibilities in respect of specific risk management and internal control procedures among the heads of departments of the company who report to or are supervised by such executive bodies. The heads of the departments of the company shall be responsible, in accordance with their functional duties, for designing, documenting, putting in place, monitoring, and developing the risk management and internal control system within their respective functional areas of the company's business.

### *5.2. Internal audit*

To independently evaluate, on a regular basis, reliability and efficiency of the risk management and internal control system and corporate governance practices, the company shall carry out internal audits. The internal audit function shall be carried out through the creation of a separate unit or by retaining a third party entity. When arranging for an internal audit, it is recommended to apply generally accepted standards of internal auditing.[8]

The objectives of the internal audit department should include:

1) developing a plan of work of the internal audit department setting its priorities and consistent with the company's goals, using a risk-based approach;

2) conducting internal audits on the basis of an approved work plan of the internal audit department, as well as carrying out extraordinary audits at the request of the executive body, the audit committee and/or the board of directors of the company;

3) preparing and submitting to the board of directors and the executive bodies reports on the results of the internal audit department's work (in particular, reports including information on material risks, deficiencies, results and efficiency of measures taken to address any identified deficiencies, results of implementation of the work plan of the internal audit department, results of evaluation of the actual condition, reliability, and efficiency of the risk management and internal control system and the corporate governance system);

4) assisting the executive bodies and employees of the company in developing and monitoring compliance with procedures and measures aimed at improving the risk management and internal control system and corporate governance in the company;

5) coordinating work with the external auditor of the company and persons providing advisory services in the area of risk management, internal controls, and corporate governance; and

6) carrying out internal audits of controlled companies pursuant to the established procedure.

The company should provide for a mechanism enabling it to ensure the independence of the internal audit department, which is achieved by separating functional and administrative lines of reporting.

In terms of functional lines of reporting, it is recommended that the internal audit department should report to the board of directors, which means:

1) approval by the board of directors (its audit committee) of a policy of internal auditing (a Regulation on Internal Audit) setting out the goals and objectives of the internal audit department;

2) approval by the board of directors (its audit committee) of a work plan of the internal audit department;

[8] In particular, the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

3) receipt by the board of directors (its audit committee) of progress reports in relation to the work plan of the internal audit department and information on other issues;

4) approval by the board of directors (its audit committee) of any decisions on the appointment, dismissal and the amount of remuneration of the head of the internal audit department; and

5) consideration by the board of directors (its audit committee) of significant limitations on the powers and authority of the internal audit department or on its budget which might adversely affect the performance of the internal audit function.

Administrative lines of reporting of the internal audit department shall involve:

1) review and approval by the company's executive body of a budget of the internal audit department and its staffing needs;

2) evaluation and determination of the amount of remuneration of employees of the internal audit department; and

3) administration of the policies and procedures of the internal audit department.

### *5.3. Internal audit commission*

For the purpose of exercising control over its financial and business operations and pursuant to the law, the company should form a special body, an internal audit commission, to be elected by the general shareholders meeting.

The company should set forth, in its articles of association or internal documents:

1) the jurisdiction, powers, and authority of the internal audit commission, and a procedure for its work;

2) the principles of and a procedure for interaction of the internal audit commission, the audit committee, and the internal audit department of the company.

Control over financial and economic activity becomes more efficient if the internal audit commission liaises and cooperates with the audit committee and provides the latter with information on the former's performance. To improve efficiency and optimise costs of control, it is recommended to staff the internal audit commission, as well as the internal audit commissions of any controlled companies, with employees of the internal audit department of the company.

## VI. DISCLOSURE OF INFORMATION ABOUT THE COMPANY AND PROVISION OF INFORMATION TO ITS SHAREHOLDERS

The system (practice) of corporate governance should ensure timely disclosure of complete and accurate information about the company in order to enable its shareholders and investors to make informed decisions.

Disclosure of information is one of the most important tools of interaction of a company with its shareholders and other stakeholders (creditors, partners, customers, suppliers, communities, and governmental authorities).

Proper disclosure of information contributes to establishing long-term relationships with such persons and gaining their trust, as well as helps the company increase its value and raise capital.

The basic principles of disclosure of information about the company should be as follows: regular and timely disclosure of information, its accessibility, reliability, completeness, and comparability of disclosed data.

***6.1. The company must provide regular and timely disclosure of information.***

To implement this principle in the corporate governance practice:

1) one needs to ensure the continuity of the process of information disclosure. To do this, the company should determine a procedure ensuring coordination of work of all its structural units and departments which are involved in disclosure of information or whose activities may lead to the need to disclose information;

2) information that can materially affect the company's estimated value and the value of its securities should disclosed as soon as possible;

3) if the company's securities are traded on foreign organised markets, material information should be simultaneously disclosed in and outside the Russian Federation; and

4) one should promptly provide information about the company's position regarding rumours or false information presenting a distorted view of the company's estimated value or the value of its securities, which presents a threat to the interests of its shareholders and investors.

***6.2 Accessibility of information.***

The company shall use all channels and means of disclosure of information, particularly electronic ones (websites, conference calls, etc.). Channels for disseminating information should provide interested parties with free and easy access to the information disclosed by the company.

Access to information should be provided at no charge and involve no special procedures (obtaining passwords, registration, or other technical restrictions) for obtaining and reviewing information.

***6.3. Reliability and comparability of data.***

The company shall seek to procure:

-that disclosed information is readily understandable and consistent and that data are comparable (so that it would be possible to compare performance indicators of the company for different periods as well as to compare the company's indicators with those of similar companies);

-information provided by the company is objective and balanced. When describing its activities, the company should not refrain from disclosing negative information about itself if such information is material to its shareholders and investors; and

-neutrality of financial and other information disclosed by the company, that is, such disclosed information should be presented regardless of the interests of any persons or their

groups. Information shall not be deemed to be neutral if its content or form is selected with a view to achieving certain results or effects.

### *6.4. Completeness of information*

In order to enable the shareholders and investors to make informed decisions, the company should disclose all material information about its activities, even if publication of such information is not required by law. The company should disclose information not only about itself but also about any legal entities which are controlled by and are material to the company.

The company's website is the main channel for information disclosure by the company, so its website should contain all the information on various aspects of its activity.

Along with the information required to be disclosed by law, the company should also disclose:

1) information about its mission, strategy, objectives, and policies;

2) additional information on its financial activity and financial condition;

3) information on its equity structure;

4) information on its social and environmental responsibility;

5) information on its corporate governance system; and

6) its investment and information memoranda.

The company should also disclose the following information about its financial activity and financial condition:

1) a report on the results of an auditor review or an auditor's report on interim financial statements prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as the IFRS);

2) a detailed breakdown by main indicator contained in financial statements prepared in accordance with IFRS (earnings by main activity, costs by component, segment analysis by principal type of activities, etc.);

3) notes made by the executive bodies of the company to its annual and interim financial statements, including analysis of the company's financial condition and results of its operations (MD&A), in particular, analysis of its profitability, financial stability, evaluation of changes in the composition and structure of its assets and liabilities, evaluation of current and prospective liquidity of its assets, description of the factors affecting the company's financial condition and trends that might affect the company's business in the future;

4) information about all material risks that may affect the company's business;

5) information on transactions with related parties, in accordance with the criteria set forth by IFRS;[9]

[9] There is a materiality threshold for disclosure of information about the terms and conditions of one or more related transactions of an issuer and legal entities controlled thereby; the threshold is up to 1 per cent of the value of the assets calculated in accordance with applicable international accounting standards. A detailed description of such transactions means that the following information is disclosed: the date of the transaction, a description of its terms and conditions, the names of the counterparties to the

6) information on material transactions of the company and legal entities controlled by it (including related transactions entered into by the company and one and/or a few legal entities controlled by it);

7) information on a change in the extent of control over a legal entity controlled by the company where such extent is material to the company; and

8) information about other significant events affecting financial and economic activities of the company and any of its controlled entities that are material to the company.

The company should disclose the following additional information on its equity structure:

1) information on the number of its shareholders;

2) information on the number of voting shares by category (type) of shares and on the number of shares held by the company and or any legal entities controlled by it;

3) information on any persons who directly or indirectly own shares and/or may dispose of the votes attached to shares and/or are beneficiaries of shares in the company representing 5 or more per cent of its share capital or its ordinary shares;

4) a statement by the company's executive bodies that the company is unaware of any existing shareholdings representing more than 5 per cent of its shares other than those already disclosed by the company; and

5) information about possible or actual acquisition by certain shareholders of a degree of control disproportionate to their shareholdings in the share capital of the company, including on the basis of shareholder agreements or the existence of ordinary and preferred shares with different nominal values.

The company should disclose the following information on its social and environmental responsibility:

1) the company's social and environmental policy;

2) a report on its sustainable development of company drawn up in accordance with internationally recognised standards;[10] and

3) the results of a technical audit, an audit of quality control systems, and the results of certification of its quality management system in terms of its compliance with international standards.

The company should disclose the following additional information about its corporate governance system:

1) information on the system and general principles of corporate governance applied by the company;

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transaction and the nature of their relationship, grounds for deeming the transaction to be a related party transaction, feasibility of entering into the transaction, the transaction amount/a percentage of the value of the assets that such amount represents.

[10] See the Global Reporting Initiative (GRI).

2) information on the composition of its collective executive body, specifying the names of the chairman and his/her deputy and biographical details of each member of the collective executive body (including information about their age, education, skills, and experience), information on the positions they currently hold, or held during at least the last 5 years, in management bodies of other legal entities;

3) information on the composition of the board of directors, specifying the names of the chairman and his/her deputy, as well as biographical details of each board member (including information about their age, education, current position, skills, and experience), the date when each director was first elected to the board of directors, their membership on the boards of directors of other companies, information about whether they are independent directors, as well as information on the positions they currently hold, or held during at least the last 5 years, in management bodies of other legal entities ;

4) information on the loss by a board member of his/her status of an independent director; and

5) information on the composition of the committees of the board of directors specifying the names of the chairman and independent directors in each of the committees.

***6.5. Annual report of the company***

The company's annual report is one of the most important tools of its interaction with its shareholders and other stakeholders. It is recommended to include information in the company's annual report enabling one to evaluate its performance results for the year.

Along with information provided for by law, an annual report should include the following information:

1) general information (including a brief history and the organisational chart of the company);

2) letters to the shareholders from the chairman of the board of directors and the one-person executive body of the company evaluating the company's performance during the year;

3) information on securities of the company, including on placement of its additional shares and changes in its equity during the year (changes in the composition of persons who may dispose, whether directly or indirectly, of at least 5 per cent of the votes attached to the voting shares of the company);

4) information on the number of shares in the company held by it and the number of shares therein owned by legal entities controlled by the company;

5) key production indicators of the company;

6) key indicators of the company's accounting (financial) statements;

7) the company's actual performance results achieved during the year in comparison with its planned targets;

8) distribution of profits and a description of the dividend policy of the company;

9) investment projects and strategic objectives of the company;

10) prospects of the company's development (sales, productivity, controlled market share, revenue growth, profitability, financial leverage);

11) a summary of most significant transactions entered into by the company during the past year;

12) a description of the company's corporate governance system;

13) a description of the company's risk management and internal control system;

14) a description of the company's personnel and social policy and social development, protection of health of its employees, their training, and labour safety; and

15) environmental protection and the environmental policy of the company.

Along with the information provided for by law, the company's annual report must include the following information on corporate governance in the company:

1) a report of the board of directors (including reports by its committees) for the year; in particular, such report should include information about the number of boards meetings held in person/without physical presence of the board members and about participation of each member of the board of directors in its meetings, a description of most important and most complex issues which were discussed at the meetings of the board of directors and its committees, and main recommendations made by the committees to the board of directors;

2) the results of evaluation by the audit committee of the efficiency of internal and external audits;

3) a description of the procedures used to select the external auditor and ensuring its independence and objectivity, as well as information on the remuneration of the external auditor for its auditing and other services;

5) information on evaluation (self-evaluation) of the board of directors and, if outside consultants were retained to evaluate the performance of the board of directors, information on such consultant and the results of its evaluation;

6) information about any shares in the company which are owned by, or whose beneficiaries are, members of the board of directors and/or executive bodies of the company;

7) information on whether any members of the board of directors and the executive bodies have conflicts of interest (including those associated with their participation in the management bodies of any competitors the company);

8) a description of the system of remuneration of board members, including the amount of individual remuneration payable upon the results of the year to each board member (with a breakdown between their basic fee, additional remuneration for the chairmanship in the board of directors and for the chairmanship/membership in committees of the board of directors, the amount of participation in the long-term incentive programme, the amount of participation of each board member in an option plan, if any), reimbursement of expenses associated with their participation in the board of directors, and costs incurred by the company in connection with liability insurance for its directors in their capacities of members of the management bodies;

9) a description of the principles and approaches used to motivate key managers, a description of all components of remuneration paid to key managers (for example, a fixed fee, short-term and long-term incentive programmes, benefits, pension contributions), target proportions between various components of remuneration paid to key managers, a description of performance indicators which serve as basis for each of such remuneration components and their target levels, a general description

of the company's policy with respect to severance allowances for key managers (in particular, the maximum amount of such severance allowances);

10) information on the total remuneration for the year:

- in respect of a group of at least five members of the executive bodies and other key managers of the company who receive the largest amounts of remuneration, broken down by type of remuneration;

- in respect of all members of the executive bodies and other key managers of the company who are subject to the company's remuneration policy, broken down by type of remuneration;

11) information on the remuneration of the one-person executive body for the year, which he/she has received or is to receive from the company (or a legal entity forming part of a group of entities which includes the company) with a breakdown by type of remuneration, both for carrying out his/her duties of the one-person executive body and otherwise;

12) information on loans (credits) provided by the company (or a legal entity forming part of a group of entities which includes the company) to any members of its board of directors and executive bodies; and

13) a report on compliance by the company with the recommendations of this Code, specifying recommendations that are not complied with by the company and explaining the reasons for its failure to do so.

***6.6. Information policy of the company***

The company must develop and have in place an information policy which would ensure disclosure of material information about the company.

The company needs to develop an information policy which describes its purposes and principles, contains a list of information (in addition to that provided for by law) which must be disclosed by the company as well as a procedure for its disclosure (specifying information channels to be used for disclosure and forms of such disclosure), time periods during which disclosed information should be accessible, a procedure for communication of members of the management bodies, officers, and employees of the company with its shareholders and investors, as well as with representatives of mass media and other interested parties, and measures aimed to ensuring control over compliance with the company’s information policy.

Disclosure of information on the company’s activity shall be the responsibility of its executive bodies which shall act in accordance with information disclosure rules set forth by the company. Its board of directors shall exercise control over proper information disclosure and compliance with the information policy.

The company must have in place mechanisms of control of access to insider information and its use; it should also oversee implementation of and compliance with respective control procedures. It is recommended to include in the company’s information policy procedures for access to insider information and rules of confidentiality and control over compliance with the requirements of law on insider information.

An important part of the company’s information policy is its interaction with its shareholders, investors, analysts, and other interested parties. Such interaction is facilitated by:

-setting up the company's website where it would post answers to frequently asked questions from shareholders and investors, a regularly updated calendar of its corporate events, and other useful information for its shareholders and investors;

-regular meetings with analysts, members of the executive bodies, and other key managers of the company; and

-regular presentations (including in the form of conference calls and webcasts) and meetings with members of the management bodies and other key employees of the company, in particular, in connection with publication of financial statements of the company or in relation to major investment projects or plans for strategic development of the company.

Under the law, the shareholders have the right to obtain other information about the company which is not disclosed by the latter. The specifics of activities of a company with a large number of shareholders do not prevent the company from taking special measures to protect information that is not publicly available.

When providing information to its shareholders, the company should maintain a reasonable balance between the interests of individual shareholders and its own interests related to the fact that the company is interested in keeping confidential important business information that might have a material impact on its competitiveness.

Option 1. In order to achieve the above balance, the company may provide, in its information policy, for the right of its executive bodies or board of directors to object to a request from a shareholder if, from the company's point of view, the nature and scope of the information requested by the shareholder suggests that the shareholder abuses the right to access to information of the company. Such objections may not be arbitrary and biased and must be consistent with the principle of equality of conditions for the shareholders, whereby under equal circumstances shareholders must be treated equally.

Option 2. It is recommended that the board of directors should approve an internal document (which may be made part of the company's Regulation on Information Policy) containing a list of information that constitutes commercial or professional secrets or otherwise falls within the category of confidential information). Access to such information should be provided to a shareholder on the condition that the shareholder is advised of the confidential nature of the information and assumes the obligation to maintain its confidentiality (for example, by providing a respective written acknowledgement).

## VII. MAJOR CORPORATE ACTIONS

A number of actions that may be performed by the company and can lead to fundamental corporate changes, including to a change in the rights of its shareholders (major corporate actions), must be taken with maximum openness and transparency and in such a way as to ensure that the rights of the shareholders are observed and protected.

Major corporate actions shall include, primarily, reorganisation of the company, acquisition of 30 or more per cent of its voting shares (takeover), entering by the company into any material transactions

(including major transactions and interested party transactions), increasing its share capital, as well as listing and delisting of its shares.

The company must put in place a procedure for taking major corporate actions that would allow its shareholders to obtain full information about such actions and would guarantee their rights.

Taking into account the importance of major corporate actions, the company shall provide the shareholders with an opportunity to influence such actions and enjoy an adequate level of protection of their rights when any such actions are taken. This goal is achieved by putting in place a transparent and fair procedure which is based on proper disclosure of the impact that such actions may have on the company and its shareholders.

It is recommended to include the rules and procedures relating to the implementation of major corporate actions by the company in its internal documents. When setting such rules and procedures, the company should not only seek to comply with the formal requirements of law but should also be guided by the principles of corporate governance set out in this Code. Thus, if there are gaps in the law or if means of protection of shareholders' rights are not efficient enough, additional measures should be provided to the shareholders to ensure equal treatment of all the shareholders and protect their rights.

***7.1. Material transactions entered into by the company.***

The company should enter into transactions at fair prices and on transparent terms and conditions which would ensure the protection of interests of all its shareholders.

It is recommended to extend the statutory procedure for the entering by a company into major transactions to include any transactions that do not meet the criteria set forth by the law in respect of major transactions but are still material to the company. Such material transactions should include the following:

1) any sale of shares (interests) in any legal entity controlled by the company which is material to the latter, where, as a result of such transaction, the company would lose control over such legal entity;

2) any transaction with property whose value exceeds a threshold amount specified in the company's articles of association or which is material to the company’s business operations; and

3) any interested party transaction of the company, where such transaction is concurrently a major transaction.

If there is doubt as to whether or not a particular transaction is a major one, it is recommended to enter into the transaction in accordance with the procedure provided for in respect of major transactions.

All major transactions should be approved before they are entered into.

It is recommended that the board should exercise control not only over material transactions of the company but also over material transactions entered into by any legal entities controlled by the company. It is recommended to consider and approve, on a preliminary basis, the company's position on the issue of such transactions entered into by legal entities controlled by the company.

In determining the materiality of a transaction entered into by a legal entity belonging to a group of entities which includes the company, it is recommended to be guided by the following criteria:

1) the proportion between the value of assets to be acquired or disposed of pursuant to the transaction in question and the book value of the assets of the group of entities which includes the company; and

2) the proportion between the value of assets to be acquired or disposed of pursuant to the transaction and the market capitalisation of the ultimate parent company of the group of entities which includes the company.

Determining the value of property to be acquired or disposed of pursuant to a major transaction or an interested party transaction falls within the jurisdiction of the company's board of directors.

Under the law, it is not required to retain an independent appraiser to determine the market value of such property. However, in such cases, the board of directors is recommended to retain an independent appraiser with an established impeccable reputation in the market and appraisal experience in the respective area or to provide a good reason for not doing so.

In instances where the decision to approve a material transaction does not formally entitle the shareholders to demand that their shares be redeemed by the company, but such transaction is objectively capable of influencing their intentions to remain shareholders of the company, or in instances where the right of the shareholders to demand such redemption of their shares cannot be exercised because of a low value of the net assets of the company, it is advisable to grant the right to the shareholders to sell their shares to the company, a person controlling the company or any legal entity controlled by the company.

Repurchase and redemption of shares, irrespective of whether or not it is mandatory or voluntary, must be effectuated at a fair price determined by an independent appraiser with an established impeccable reputation in the market and appraisal experience in the respective area, with the account of the weighted average price of the shares over a reasonable period of time, without accounting for the effect of a respective transaction to be entered into by the company (including without accounting for any change in the price of the shares in connection with dissemination of information on the company's entering into the transaction), and without accounting for a discount for selling shares as part of a non-controlling block of shares.

It is advisable to presume that the procedure set forth in respect of approval by the company of interested party transactions should also apply to transactions entered into on behalf of third parties, but for the account of the company.

The company's articles of association should expand a list of grounds on which members of the company's board of directors or its executive bodies, including its management company or manager or a shareholder of the company holding, together with its affiliates, 20 or more per cent of the voting shares of the company, as well as a person who has the right to give instructions to the company which are binding on the latter, are deemed to be interested in a transactions of the company. When expanding the list of such grounds, it is recommended to evaluate relationships to determine if there is some sort of affiliation and reflect the same in the company's articles of association as grounds for one's interest (for example, it is recommended to presume that if a member of the board of directors of the company or his/her affiliate holds a managerial position at, but is not formally a member of the management bodies of, a counterparty of the company, such board member (affiliate) should also be deemed interested in a transaction of the company with such counterparty).

When exercising control over transactions entered into by legal entities controlled by the company, the latter's board of directors is recommended to evaluate possible signs of interest in such transactions on the part of any persons who influence the company.

In practice, it often happens that at a general shareholders meeting, which considers whether to approve an interested party transaction, shareholders that are not formally interested in the transaction but actually fall within the category of such interested parties, would vote on its approval. A similar situation may occur when a meeting of the board of directors considers an interested party transaction.

However, such approval of an interested party transaction often constitutes the beginning of a corporate conflict in the company.

In connection with the above, when an interested party transaction is being approved at the general shareholders meeting or a meeting of the board of directors, the board of directors and the corporate secretary of the company are recommended to identify any such persons who are actually interested in the transaction and to help prevent their votes from being taken into account when summing up the results of the voting on the approval of the relevant transaction.

***7.2. Reorganisation of the company.***

The board of directors should be actively involved in setting the terms and conditions of reorganisation of the company. Therefore, the company's articles of association should not exclude the rule that a decision of the general shareholders meeting on the company's reorganisation may be made upon a proposal of the board of directors.

The board of directors should resolve to refer a proposal on reorganisation of the company to the shareholders meeting for consideration only if the board of directors is convinced that the reorganisation is necessary and its terms and conditions are acceptable. When considering whether the reorganisation is acceptable, the board of directors should evaluate its terms and conditions based on whether they are consistent with the interests of the shareholders, including those owning small stakes in the company, and determine whether or not conversion ratios resulting from the reorganisation are just and fair. For the purpose of efficient analysis of these aspects of reorganisation, setting its terms and conditions, and interaction with the executive bodies in connection with the reorganisation and nomination of an appraiser on the basis of whose report the conversion ratios are to be approved, the board of directors is recommended to form a special committee consisting of board members.

Particular attention should be paid to corporate governance issues arising in instances when reorganisation is coupled with interest, which is understood to mean any reorganisation in the form of merger or accession (or involving merger and/or accession as one of its phases) where any person(s) controlling the company also control(s) at least one of the other legal entities involved in the reorganisation. In the event of such reorganisation, a said special committee must be formed and must include independent directors. The parameters of such reorganisation should be reviewed by the independent directors included in the committee who should issue an opinion on the fairness of the terms and conditions of the proposed reorganisation; should their opinion be negative, the proposal on reorganisation should not be referred for consideration to the general shareholders meeting.

An opinion of the special committee (as well as dissenting opinions of its members) should be enclosed with the materials of the board meeting which considers whether or not the proposal on reorganisation should be referred for consideration to the shareholders meeting as well as with the materials of the respective shareholders meeting.

The board of directors and, in particular, independent directors must be available to communicate with shareholders in the course of preparation of the board of directors' decision as to whether the proposal on reorganisation should be referred for consideration to the general shareholders meeting. Before the decision on reorganisation is made, the board members, including independent directors, should participate in negotiations on the reorganisation and organise discussion of the progress of the negotiations by the board of directors and/or its committees.

The board of directors shall approve draft documents related to the reorganisation and refer the proposal on reorganisation for consideration to the general shareholders meeting.

To determine a conversion ratio in the course of reorganisation, it is recommended to retain an independent appraiser. It is advisable to retain for appraisal in the course of reorganisation only those appraisers that have a good business reputation in the market and experience of appraisal in the respective area. Each of the legal entities involved in reorganisation should be appraised by the same appraiser (including with a view to ensuring that equivalent approaches and assumptions are applied in comparable situations for the purpose of appraisal).

It is recommended to determine the ratio of conversion of shares in the course of reorganisation based on their market price; such ratio should not prejudice the interests of the company's shareholders. The estimated value of shares set for their redemption should not be less than their value determined for the purposes of reorganisation.

It is recommended to simultaneously hold general shareholders meetings of each of the companies involved in the reorganisation.

When reorganisation occurs, the most vulnerable are likely to be those preferred shareholders who vote on the reorganisation issue together with the holders of ordinary shares, since such preferred shareholders cannot influence the decision on the reorganisation; for such shareholders, the terms and conditions of the reorganisation are set, in effect, by the holders of ordinary shares, which constitutes a built-in conflict of interest. In this regard, if the reorganised company has preference shares it should ensure in advance that the reorganisation is carried out in such a way as to not prejudice the rights of holders of its preferred shares.

### *7.3. Takeover of the company.*

The management bodies and employees of the company should monitor the strict compliance by the company of the legal requirements applicable in respect of takeover of the company, including the requirements to a respective voluntary offer, mandatory offer, notice of the right to require redemption of securities of the company, as well as a request of a majority shareholder regarding compulsory redemption of the company’s securities.

The board of directors should be actively involved in the procedures relating to the takeover; in particular, it should monitor and, if possible, prevent attempts to carry out a takeover of the company (including an indirect takeover) without submitting a voluntary or mandatory offer, check the reasons for not submitting a mandatory offer or grounds for compulsory redemption, as well as evaluate their terms and conditions, including the fairness of the repurchase (redemption) price and the possibility of acceptance of a public offer by the shareholders. The board of directors of the company should communicate its opinion on the takeover and related procedures to the shareholders.

The board of directors is encouraged to provide assistance so as procure that a person submitting a mandatory offer would obtain all necessary permits for the acquisition of a respective block of shares in the company well in advance and, thus, that the acceptance of the mandatory offer by the shareholders would not violate the requirements of the law in respect of preliminary approval of the acquisition of a shareholding in the company. In particular, the company should disclose as to whether any requirements for preliminary approval of acquisition apply to the acquisition of a large block of its shares.[11]

[11] For example, the requirements of the Federal Law "On Procedure for Making Foreign Investments in Business Entities of Strategic Importance for National Defence and State Security."

The company is recommended to identify and prevent attempts to manipulate the price of shares in the company with a view to influencing the takeover price of the company.

If attempts are made to carry out a takeover of the company, the company should disclose on its website a respective voluntary or mandatory offer to purchase its securities, information on a guarantor who has provided a bank guarantee, the bank guarantee, a report of an independent appraiser on the market value of the securities to be acquired, a respective opinion of the board of directors (including an opinion of each of the independent directors) in respect of the takeover, including information on compliance by the person that carries out the takeover with the legal requirements and corporate governance principles.

### *7.4. Listing and delisting of shares.*

When considering issues relating to a listing of the company's securities, the board of directors should evaluate all benefits and costs associated with such listing well in advance.

When considering issues relating to a delisting of the company's securities, the board of directors should ensure that the respective decision is made in a fully transparent manner; in particular, it should ensure that the holders of the relevant securities are provided with information about the grounds for such decision and the risks of delisting assumed by the securities holders and protect their rights in connection with the delisting process. Good corporate governance practices relating to a delisting of shares (or securities convertible into shares) of a company imply that the controlling person of the company should make a voluntary offer on fair terms and conditions and that the relevant securities should be subsequently delisted.

The company should not take any actions that may lead to a forced delisting of its securities.

### *7.5. Increase in the share capital of the company*

The legislation provides for the protection of the rights of the existing shareholders in the event of an increase in the share capital of the company in the form of the pre-emptive right to purchase shares, the right to vote on a decision to make amendments to the company's articles of association which would limit the rights of such shareholders and on a decision to increase the share capital, as well as the right to demand that shares owned by such shareholders be redeemed if any amendments limiting their rights are made to the articles of association.

However, in practice, the means of protection provided for by law are not always sufficient. For example, when preferred shares of a certain type are placed, no pre-emptive right is provided to the shareholders holding ordinary shares and the shareholders holding preferred shares of other types. In addition, the pre-emptive right is not necessarily an efficient means of protection of the shareholder rights in a situation where shares are placed through closed subscription and paid for with property and where a shareholder exercising the pre-emptive right has not such property. In this case, the economic effect of the acquisition of shares to be paid for in cash can significantly differ from that of the acquisition of shares to be paid for with non-monetary assets.

The company is recommended to place additional shares to be paid for with non-monetary assets only in exceptional cases (e.g., when additional shares are to be paid for with marketable securities or unique property that is required for the company to carry out its principal activity). To appraise respective property, the company should only retain appraisers with an impeccable business reputation in the market and experience of appraisal in the respective area. In such cases, any issues related to the increase in the share capital should be considered by independent directors who should express their opinion as to whether the terms and conditions of the proposed increase in the share capital are fair. If the opinion expressed by the independent directors is negative, the company should refrain from making the decision on such increase in the share capital of the company.

When considering a placement of a new type of preferred shares, the board of directors should carefully review the advisability of the creation of the new type of shares based on the assumption that a simple equity structure, in particular, consisting solely of ordinary shares, is better for investors in the long term as it is most conducive to the implementation of the principle of "one share -one vote", as well as to the protection of the property rights of the shareholders.

In this connection, when making a decision on amendments to the articles of association providing for the possibility of a placement of a new type of preferred shares, the company is recommended to make sure that the placement of such shares does not violate any dividend rights of the existing shareholders and does not lead to dilution of their shareholdings.

If the placement of the new type of preferred shares violates any dividend rights of the existing shareholders or lead to dilution of their shareholdings, the company should change rights associated with the shares being placed so as not to violate the dividend rights of the existing shareholders or should organise the placement of such shares in such a way that the relevant existing shareholders (including those who have no pre-emptive rights) would be able to buy issued shares in a matter of priority in proportion to their current shareholding.