CORPORATE GOVERNANCE CODE

Unofficial Translation
Russian version published in the Official Journal of the Bank of Russia No.40 (1518) - 18 April 2014

Table of contents

FOREWORD 3
INTRODUCTION 6
I. SHAREHOLDERS' RIGHTS AND EQUALITY OF CONDITIONS FOR SHAREHOLDERS IN THE EXERCISE OF THEIR RIGHTS 9
II. THE BOARD OF DIRECTORS OF THE COMPANY 10
III. THE COMPANY SECRETARY 13
IV. SYSTEM OF REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS, THE EXECUTIVE AND OTHER KEY MANAGERS OF THE COMPANY 14
V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM 15
VI. DISCLOSURE OF INFORMATION ABOUT THE COMPANY AND ITS INFORMATION POLICY 16
VII. MATERIAL CORPORATE ACTIONS 16
PART B. RECOMMENDATIONS ON PRINCIPLES OF CORPORATE GOVERNANCE 18
I. SHAREHOLDERS' RIGHTS AND EQUALITY OF CONDITIONS FOR SHAREHOLDERS IN THE EXERCISE OF THEIR RIGHTS 18
II. THE BOARD OF DIRECTORS OF THE COMPANY 26
III. THE COMPANY SECRETARY 52
IV. SYSTEM OF REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS, THE EXECUTIVE AND OTHER KEY MANAGERS OF THE COMPANY 54
V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM 59
VI. DISCLOSURE OF INFORMATION ABOUT THE COMPANY AND ITS INFORMATION POLICY 64
VII. MATERIAL CORPORATE ACTIONS 73

FOREWORD

The Russian economy's rapid climb in the early 2000s along with improvements to the financial standings and business positions of Russian companies, accompanied by hikes in prices for their shares, and the substantial number of new issuers of securities have fuelled investor, especially portfolio investor, interest in Russian companies, thus providing an objective basis for the development of corporate governance practices. No wonder that related matters then became the focus of attention of Russia's Federal Commission for the Securities Market, which served as the Russian financial market regulator at the time. Russian joint-stock company legislation at the time was still less than adequate, while numerous infringements of minority shareholder and investor rights during the preparation and holding of general shareholders' meetings, decision-making on additional share placing that would dilute the ownership interests of existing stockholders, and malpractices in the course of major transactions and non-arm's length transactions discouraged domestic and foreign investors from investing in Russian companies and undermined trust in the Russian financial market.

Under the circumstances, the drafting of the Russian Corporate Governance Code (hereinafter referred to as the "Code")[1] has been an important landmark in the promotion of corporate arrangements in the Russian Federation. Upon being adopted, the Code provided Russian joint stock companies with basic guidelines in implementing advanced standards for corporate governance with due regard for the distinctive features of existing Russian legislation and the practical aspects of relations on the Russian market among shareholders, members of boards of directors (supervisory boards) (hereinafter “board of directors”), executives, employees, and other interested parties involved in the economic activities of joint stock companies. The Code provided clearly formulated ideas on what should be required of companies, thus contributing to increased activity on the part of shareholders and investors.

A group of Russian companies began to use the Code as a vital source for the preparation of their own internal documents setting corporate governance standards. As a result, the Code made a substantial contribution to overall progress in the advancement of corporate governance practices and the introduction of the best standards accepted on international markets, and to improving the image of Russian companies and making them more attractive investment options.

Since its approval, however, the international financial landscape, Russian corporate legislation, litigation and arbitration practices, and corporate governance practice in Russian businesses have all undergone substantial changes. A great many problems once of serious concern to Russian companies, including those connected with the preparation and conduct of shareholders' meetings, securities issuance, financial reporting, information disclosure, the payment of income on securities, and shareholder protection during company restructuring,

[1] Approved at the meeting of the Russian Government on 28 November 2001 and recommended to be used by joint stock companies by Order of the Federal Commission for the Securities Market of the Russian Federation dated 4 April 2002 No. 421/r “On Recommendations for Use of the Corporate Conduct Code”.

mergers and acquisitions, the principal ways of dealing with which were recommended in the Code, have been successfully addressed by appropriate legislative and regulatory enactments.

The crisis hitting the global financial system in 2008-09 brought investor and regulator attention to issues involved in using corporate governance as a vital tool for enabling companies to gain stability and making for their effective long-term development. By that time, most Russian companies had exhausted the advantages (opportunities) for the Russian economy's 'catch-up' growth and needed to look for other sources and tools of long-term economic growth. Speculative investors, who dominated the Russian market during its 'catch-up' growth stage, lost interested in Russian companies. Long-term investors, need a clear understanding of the strategic goals and prospects of a particular company and have to be confident that their rights will not be infringed, which cannot be achieved without improving corporate governance practices.

In view of the foregoing, those involved in the theory and practice of corporate governance have started paying greater attention to such matters as protection for shareholders' rights at times of material corporate actions, the need for balanced and realistic development strategies to be adopted, the monitoring of their implementation, improving the efficiency of board committees, efficient systems to manage risks and avert conflicts of interest, and devising remuneration policies for top managers.

These were the essential prerequisites for revising and updating the Code.

Work on an updated version of the Code by the Expert Panel on Corporate Governance under the Federal Service for Financial Markets of the Russian Federation had already begun at the height of the financial crisis, with representatives of business and specialist communities including major Russian companies, professional bodies and research organisations.

At this stage of work, proposals were developed on new versions of individual chapters of the Code (on the board of directors, general shareholders' meeting, internal audit, information disclosure, etc.). On the basis of such proposals, the regulator of the financial markets, i.e. the Federal Service for Financial Markets of the Russian Federation, drafted the new version of the Code. In 2011-12, laws were passed which had a significant effect on corporate governance in Russia (the Federal Law "On the Central Depository", amendments to the Federal Laws "On the Securities Market" and "On Joint Stock Companies"). The above laws greatly improved the situation relating to the protection of share ownership rights, information disclosure by and transparency of Russian companies, and the payment of income on securities issued by Russian companies. The draft new version of the Code was further amended on the basis of the above laws and proposals of the Russian Committee on Property Management and the Russian Ministry for Economic Development, the Moscow Exchange, and a corporate governance subgroup of a working group involved in the creation of Moscow's International Financial Centre, as well as proposals of Russian and international firms providing services in relation to corporate governance. The European Bank for Reconstruction and Development and the Organisation for Economic Co-operation and Development also took part in this work, so that the Code could be evaluated and commented on by leading international experts in corporate governance,

The new version of the document was renamed to the Corporate Governance Code. This change is not merely editorial; it reflects a change in the approach and the role which the Code is meant to play. Because of weaknesses of the Russian legislation, one of the major goals of the Corporate Conduct Code was to make Russian companies behave properly vis-à-vis their shareholders and investors, in accordance with international standards. The Corporate Governance Code is not merely a document explaining the best standards of observing shareholder rights and facilitating their implementation in practice, it is also an efficient tool in making a company's management more efficient and ensuring its long-term sustainable development.

This version of the Corporate Governance Code is aimed at:

- defining principles and approaches which would make Russian companies more attractive to long-term investors;

- reflecting, in the form of the best practices, approaches that have been developed over recent years to resolving corporate problems arising in the course of joint stock companies' existence and activity;

- providing recommendations on proper practices for fair treatment of shareholders, having regard to negative examples of infringement of their rights;

- taking account of existing practice in applying the Corporate Conduct Code;

- streamlining the application of the best corporate governance practices by Russian joint- stock companies with a view to making them more attractive to Russian and foreign investors; and

- providing recommendations aimed at increasing the efficiency of management of joint stock-companies and monitoring their activity.

The Corporate Governance Code focuses on:

- the rights of shareholders, including recommendations on use of electronic facilities for the purpose of participation in voting and receiving meeting materials, as well as on protection of dividend rights of shareholders;

- organising efficient work by the board of directors, i.e. defining approaches to sensible and conscientious performance of duties by board members, defining the functions of the board of directors, and organisation of its work and that of its committees;

- clarification of requirements imposed on directors, including those relating to their independence;

- recommendations on development of a remuneration system for members of management and key managers of the company, including recommendations relating to various components of such remuneration system (short-term and long-term incentives, severance pay, etc.);

- recommendations on development of an efficient system of risk management and internal control;

- recommendations on additional disclosure of material information about the company and entities controlled by it and their internal policies; and

- recommendations on performing material corporate actions (increases in the share capital, acquisitions, listing and delisting of securities, reorganisation, material transactions) to ensure protection of shareholders' rights and their equal treatment.

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 interested parties. Corporate governance is a tool used to define the objectives of the company and ways of achieving them, as well as enabling its shareholders and other interested parties to monitor the company's activities efficiently.

The major goals of corporate governance are to create an efficient system ensuring the safety and efficient use of funds invested by shareholders as well as mitigating risks that investors cannot assess and are not willing to accept, where the need to manage such risks in the long term would inevitably reduce a company's attractiveness to investors and the value of its shares.

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 capital needed for its development. Enhancing corporate governance in the Russian Federation is the most important measure required to increase the stability and efficiency of joint stock companies' operations as well as the flow of investment in all sectors of the Russian economy, from sources within the country and from foreign investors. One way to improve corporate governance is to introduce definite standards based on analysis of best international and Russian practice.

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 can count on, which will have a positive impact on the Russian economy as a whole.

The prerequisites for the development of this Code of Corporate Governance (hereinafter referred to as "the Code") are:

1. Russian legislation already reflects most of the generally accepted principles of corporate governance. However, its implementation practices, including by legal process, and the traditions of corporate governance are still developing and are often unsatisfactory.

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

Firstly, legislation sets and should set only general binding rules. Legal rules that are excessively detailed prevent companies from functioning, as each one is unique and specific features of its activity cannot be fully reflected in legislation. Therefore, legislation often does not contain any rules at all governing the relationships in question (and the absence of regulation is by no means always a gap in legislation), or it establishes a general rule, leaving the parties to such relationships the opportunity to choose how to behave.

Secondly, legislation is in no position to react to changes in corporate governance practice in good time, as amending legislation is time-consuming.

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

Many legislative provisions, including those relating to corporate governance, are based on ethical standards and customary business practices. For example, the rules of civil law provide for 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 on exercising civil rights solely with the intention of harming another person, or circumventing them for an unlawful purpose, or other deliberately unscrupulous exercise of civil rights. Thus, the moral and ethical standards of reasonableness, fairness and integrity are an essential part of current legislation.

However, these statutory provisions are not always enough to ensure proper corporate governance. Therefore, companies should act in accordance both with the legislation and with ethical rules, which are often more stringent than legislation.

4. 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.

Clearly, good corporate governance practices imply compliance by the company with legislative requirements. It is recommended that, in its activities, a company follow the provisions of the Code, including cases where the law sets lighter regulations or contains gaps. The Code has been developed in accordance with current Russian legislation. The provisions of the Code are based on international practice in corporate governance and on corporate governance principles developed by the Organisation for Economic Co-operation 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 in force.

Application of the Code by a company is voluntary and based on the desire to increase its attractiveness in the eyes of current and potential investors.

Corporate governance should be based on the principle of sustainable company development and increasing long-term returns on investment in its share capital. To this end, the company should define its mission and the corporate values that will be the tools used by the company's managers and employees to achieve its strategic goals. The Code consists of two parts. Its first part contains basic ideas underlying proper corporate governance practices, i.e. the principles of corporate governance. The second part of the Code contains recommendations setting out methods and machinery for practical implementation of the Code's principles, as a toolkit for implementing best corporate governance practice by a company. These recommendations should form a basis for developing corporate governance policies and practice.

The principles and recommendations set out in the Code are designed primarily for joint-stock companies whose securities are traded on organised markets. Such companies should disclose information on compliance with the Code's principles, and also give reasons for failure to comply with any of them.

Application of the provisions of this Code by joint-stock companies with a large number of shareholders is also vital for shareholders and investors. In addition, these principles can also be applied, as appropriate, by other legal entities.

PART A. PRINCIPLES OF CORPORATE GOVERNANCE

I. SHAREHOLDERS' RIGHTS AND EQUALITY OF CONDITIONS FOR SHAREHOLDERS IN THE EXERCISE OF THEIR RIGHTS

1.1 The company shall ensure equal and fair treatment for all its shareholders in the exercise by them of their rights to participate in the management of the company.

1.1.1 It is recommended that the company create the best possible conditions for shareholders to participate in the general meeting and develop informed positions on issues on its agenda and to coordinate their actions, as well as an opportunity to express their opinions on the issues being discussed.

1.1.2 The procedure for notice of a general meeting and the provision of materials for it shall give the shareholders the opportunity for making proper preparation for participation.

1.1.3 During the preparation for and conduct of the general meeting, the shareholders shall have the opportunity to receive clear and timely information about the meeting and its materials, to put questions to members of the company's executive and board of directors, and to communicate with each other.

1.1.4 There shall be no unjustified difficulties preventing shareholders from exercising their right to demand that a general meeting be convened, to nominate candidates to the company's governing bodies, and to place proposals on its agenda.

1.1.5 Each shareholder shall be able to exercise his right to vote without hindrance, in the simplest and most convenient way.

1.1.6 Procedures for holding a general meeting set by the company shall provide an equal opportunity for all persons present at the general meeting to express their opinions and ask questions that might be of interest to them.

1.2 Shareholders shall be given equal and fair opportunities to participate in the profits of the company by receiving dividends.

1.2.1 The company shall develop and install transparent and comprehensible machinery for determining the amount of dividends and their payment.

1.2.2 It is not recommended that the company make a decision on the payment of dividends, if such decision, though not actually in breach of the limits set by legislation, is unjustified from the economic point of view and might lead to false assumptions about the company's activities.

1.2.3 The company shall not allow the dividend rights of its existing shareholders to deteriorate.

1.2.4 The company shall make every effort to exclude ways in which its shareholders can profit (gain) from the company other than dividends and liquidation value.

1.3 The system and practices of corporate governance shall ensure equal terms and conditions for all shareholders owning shares of the same class (category) in a company, including minority and foreign shareholders, as well as their equal treatment by the company.

1.3.1 The company shall create conditions for fair treatment of each shareholder by its governing bodies and controlling persons, in particular, ruling out the possibility of abuse of minority shareholders by major shareholders.

1.3.2 The company shall not perform any actions which will or might result in artificial reallocation of corporate control.

1.4 The shareholders shall be provided with reliable and efficient methods of recording their rights in shares as well as the opportunity to dispose of such shares freely and without hindrance.

II. THE BOARD OF DIRECTORS OF THE COMPANY

2.1 The board of directors shall implement the strategic management of the company, define major principles and approaches to organising a risk management and internal control system within the company, monitor the activity of the company's executive bodies, and exercise other key functions.

2.1.1 The board of directors shall be responsible for decisions to appoint and remove executives, including decisions arising from failure to perform duties properly. The board of directors shall also ensure that the company's executive bodies act in accordance with an approved development strategy and the business profile of the company.

2.1.2 The board of directors shall establish basic long-term targets for the company, and shall assess and approve its key performance indicators and principal business goals, as well as its strategy and business plans with regard to its principal areas of operations.

2.1.3 The board of directors shall define the principles of and approaches to organising a risk management and internal control system in the company.

2.1.4 The board of directors shall define the company's policy on remuneration and/or reimbursement of costs (compensation) for its board members, members of its executive and other key managers.

2.1.5 The board of directors shall play a key role in prevention, detection and resolution of internal conflicts among company organs, shareholders and employees.

2.1.6 The board of directors shall play a key role in ensuring that the company is transparent, discloses information in full and in due time, and provides its shareholders with unhindered access to its documents.

2.1.7 The board of directors shall monitor the company's corporate governance practices and play a key role in its material corporate events.

2.2 The board of directors shall be accountable to the company's shareholders.

2.2.1 Information about the board's work shall be disclosed and made available to the shareholders.

2.2.2 The chairman of the board of directors shall be available for contact with the company's shareholders.

2.3 The board of directors shall be an efficient and professional governing body of the company, capable of making objective and independent judgements and pass resolutions in the best interests of the company and its shareholders.

2.3.1 It is recommended that only persons with an impeccable business and personal reputation be elected to the board of directors; they shall also have the knowledge, skills and experience necessary to make decisions within the jurisdiction of the board of directors and essential to perform its functions efficiently.

2.3.2 Board members shall be elected via a transparent procedure enabling the shareholders to obtain sufficient information about the candidates in order to form a view of their personal and professional qualities.

2.3.3 The composition of the board shall be balanced, in particular in terms of qualifications, expertise, and business skills of its members. The board of directors shall enjoy the confidence of the shareholders.

2.3.4 The composition of the board of directors shall enable it to organize its activities in a most efficient way, in particular forming committees of the board as well as enabling substantial minority shareholders of the company to elect a candidate to the board for whom they vote.

2.4 The board of directors shall include a sufficient number of independent directors.

2.4.1 An independent director shall be a person who has sufficient professional skills, expertise and independence to hold his own position, capable of making objective and bona fide judgments free from the influence of the company's executive, individual groups of shareholders or other interested parties. It should be noted that, under normal circumstances, a candidate (elected director) cannot be regarded as independent if he is connected with the company, a substantial shareholder, a material trading partner or competitor, or connected with the government.

2.4.2 Carrying out of assessment is recommended as to whether candidates nominated to the board of directors meet independence criteria, as well as regular analysis to ascertain whether independent board members meet the independence criteria. When carrying out such assessment, substance shall take precedence over form.

2.4.3 Independent directors shall account for at least one-third of all directors elected to the board.

2.4.4 Independent directors shall play a key role in preventing internal conflicts in the company and in its performance of material corporate actions.

2.5 The chairman of the board of directors shall help it perform the functions assigned to it in the most efficient way.

2.5.1 It is recommended either to elect an independent director to the post of chairman of the board, or to nominate a senior independent director among the company's independent directors to coordinate their work and liaise with the chairman.

2.5.2 The board chairman shall ensure that board meetings are held in a constructive atmosphere, that any items on the meeting agenda are discussed freely and shall monitor the implementation of resolutions passed by the board.

2.5.3 The chairman of the board shall take all necessary steps to supply the board members in time with the information essential to decision-making on issues on the agenda.

2.6 Board members shall act reasonably and in good faith in the interests of the company and its shareholders, on the basis of sufficient information and with due care and diligence.

2.6.1 Acting reasonably and in good faith means that board members shall make decisions considering all available information, with no conflict of interest, treating shareholders equally, and in the context of normal business risks.

2.6.2 The rights and duties of board members shall be clearly stated and incorporated in the company's internal documents.

2.6.3 Board members shall have sufficient time to perform their duties.

2.6.4 All board members shall have an equal opportunity to access the company's documents and information. Newly elected board members shall be provided with sufficient information about the company and the work of its board as soon as practicable.

2.7 Meetings of the board of directors, preparation for them, and participation of board members therein shall ensure efficient work by the board.

2.7.1 It is recommended that board meetings be held as necessary, having regard to the scale of the company's activities and its outstanding tasks for a specified period.

2.7.2 It is recommended that a procedure for preparing for and holding board meetings be developed and embodied in the company's internal documents, enabling board members to prepare properly for such meetings.

2.7.3 The format of a board meeting shall be determined with due regard to the importance of issues on the agenda. The most important issues shall be resolved at meetings held in praesentia.

2.7.4 Decisions on most important issues relating to the company's business shall be made at a meeting of the board by a qualified majority vote or by a majority vote of all elected board members.

2.8 The board of directors shall form committees for preliminary consideration of the most important issues in the company's business.

2.8.1 It is recommended that an audit committee consisting of independent directors be created for preliminary consideration of any matters connected with monitoring the company's financial and business activities

2.8.2 It is recommended that a remuneration committee consisting of independent directors and chaired by an independent director, but not the board chairman, be created for preliminary consideration of any issues connected with the development of efficient and transparent remuneration practices.

2.8.3 Creation of a nominating (appointments and human resources) committee is recommended for preliminary consideration of issues connected with human resources planning (succession planning) and the professional composition and efficiency of the board. A majority of its members shall be independent directors.

2.8.4 Having regard to the scale of its activities and the risk level, it is recommended that the company create other board committees (a strategy committee, a corporate governance committee, an ethics committee, a risk management committee, a budget committee, a committee on health, safety and the environment, etc.).

2.8.5 It is recommended that the composition of the committees be defined so as to allow comprehensive discussion of issues being considered on a preliminary basis with due regard for differing opinions.

2.8.6 Committee chairmen shall inform the board of directors and its chairman on the work of their committees on a regular basis.

2.9 The board of directors shall ensure that the quality of its work and that of its committees and its members is assessed.

2.9.1 Assessment of the quality of the board's work shall be aimed at defining how efficiently the board of directors, its committees and its members work and whether their work meets the requirements of the company development, revitalising the work of the board and identifying areas where it might be improved.

2.9.2 The work of the board of directors, its committees and board members shall be assessed on a regular basis, at least once a year. For independent assessment of the quality of the board's work, it is recommended that an outside organisation (consultant) be retained from time to time, at least once every three years.

III. THE COMPANY SECRETARY

3.1 The company's secretary shall be responsible for efficient day-to-day relations with its shareholders, coordination of the company's actions to protect the rights and interests of its shareholders, and supporting the work of its board of directors.

3.1.1 The company secretary shall have the trust of the shareholders as well as the knowledge, experience and qualifications sufficient for performance of his duties..

3.1.2 The company secretary shall be sufficiently independent of the company's executive and have the powers and resources required to perform his tasks.

IV. SYSTEM OF REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS, THE EXECUTIVE AND OTHER KEY MANAGERS OF THE COMPANY

4.1 The level of remuneration paid by the company shall be sufficient to attract, motivate and retain persons with the necessary skills and qualifications. The remuneration of board members, the executive and other key managers of the company shall be paid in accordance with the remuneration policy adopted in the company.

4.1.1 It is recommended that the level of remuneration paid by the company to its board members, executives and other key managers be sufficient to motivate them to work efficiently and enable the company to attract and retain competent and qualified specialists. The company shall avoid setting the level of remuneration any higher than necessary, or creating an unjustifiably wide gap between the levels of remuneration of any of the above and of the company's employees.

4.1.2 The company's remuneration policy shall be devised by the remuneration committee and approved by the board of directors. With the support of its remuneration committee, the board shall monitor the introduction and implementation of remuneration policy in the company and if necessary review and amend the same.

4.1.3 The company's remuneration policy shall contain transparent machinery to determine the amount of remuneration for members of the board of directors, the executive and other key managers of the company, as well as regulating all forms of payment, benefits or privilege granted to any of the above.

4.1.4 It is recommended that the company define a policy on reimbursement of expenses which would contain a list of reimbursable expenses and specify service levels that members of the board, the executive and other key managers of the company can claim. Such policy can form part of the company's policy on compensation.

4.2 The system of remuneration for board members shall ensure that the financial interests of the directors are in line with the long-term financial interests of shareholders.

4.2.1 A fixed annual fee shall be the preferred form of monetary remuneration for board members. It is undesirable to pay a fee for attending individual meetings of the board or its committees. No form of short-term motivation or additional financial incentive for board members is recommended.

4.2.2 Long-term ownership of company shares is the greatest contribution to aligning board members' financial interests with the long-term interests of shareholders. However making the right to dispose of shares dependent on the company reaching specific targets, or board members participating in option programmes, are not recommended.

4.2.3 Provision for any additional payment or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances is not recommended.

4.3 The system of remuneration for members of the executive bodies and other key managers of the company shall provide that their remuneration is dependent on the company's performance results and their personal contributions to achieving these.

4.3.1 Remuneration of the executive and other key managers of the company shall be set so as to ensure a reasonable and justified relationship between its fixed and variable portions that is dependent on the company's performance results and their personal (individual) contributions to the end result.

4.3.2 It is recommended that companies whose shares are admitted to trading on organised markets introduce a long-term incentive programme for members of the company's executive and other key managers, involving the company's shares (options or other derivative financial instruments, the underlying assets for which are the company's shares).

4.3.3 The amount of severance pay ("golden parachute") payable by the company in the event of early departure of an executive or other key manager at the initiative of the company, provided that there has been no mala fide behaviour on the part of such person, shall not exceed twice the value of the fixed portion of the annual remuneration.

V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

5.1 The company shall create an efficient risk management and internal control system designed to ensure with reasonable confidence achievement of the company's goals.

5.1.1 The board of directors shall define the principles of and approaches to organising the risk management and internal control system in the company.

5.1.2 The company's executives shall ensure the establishment and continuing efficiency of the company's risk management and internal control system.

5.1.3 The company's risk management and internal control system shall give an objective, fair and clear view of the current state and future prospects of the company and ensure that its accounts and reports are complete and transparent and that the risks being assumed by the company are reasonable and acceptable.

5.1.4 It is recommended that the board of directors take necessary and sufficient measures to ensure that the company's existing risk management and internal control system is consistent with the principles and approaches to its organisation defined by the board of directors and that it operates efficiently.

5.2 The company shall organise an internal audit, for regular independent evaluation of the risk management and internal control system and corporate governance practice.

5.2.1 It is recommended that internal audits be performed by a separate structural division (internal audit department) to be created by the company or by retaining an independent outside body. To ensure the independence of the internal audit department, it is recommended that its functional and administrative reporting lines are kept separate. Functionally it is recommended that the internal audit department report to the board of directors, while from administratively it shall report directly to the executive body of the company.

5.2.2 When conducting an internal audit, evaluating the efficiency of the internal control system and the risk management system and of corporate governance and applying generally accepted standards of internal auditing is recommended.

VI. DISCLOSURE OF INFORMATION ABOUT THE COMPANY AND ITS INFORMATION POLICY

6.1 The company and its activities shall be transparent to its shareholders, investors and other interested parties.

6.1.1 The company shall develop and implement an information policy ensuring the efficient exchange of information by the company, its shareholders, investors, and other interested parties.

6.1.2 The company shall disclose information on its corporate governance system and practice, including detailed information on compliance with the principles and recommendations of this Code.

6.2 The company shall disclose full, up-to-date and reliable information about itself in good time, to enable its shareholders and investors to make informed decisions.

6.2.1 The company shall disclose information in accordance with the principles of regularity, consistency and timeliness, as well as accessibility, reliability, completeness and comparability.

6.2.2 It is recommended that the company avoid using a formalistic approach to information disclosure and disclose material information on its activities, even if disclosure of such information is not required by legislation.

6.2.3 The company's annual report, as one of the most important tools of its information exchange with shareholders and other interested parties, shall contain information making it possible to assess the company's performance results for the year.

6.3 The company shall provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.

6.3.1 Exercise by the shareholders of their right to access the company's documents and information shall not be made unreasonably difficult.

6.3.2 It is recommended that the company, when providing information to its shareholders, maintain a reasonable balance between the interests of individual shareholders and its own interests, mindful of its interest in keeping sensitive business information that might have a material impact on its competitiveness confidential.

VII. MATERIAL CORPORATE ACTIONS

7.1 Actions which will or may materially affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") shall be taken on fair terms ensuring that the rights and interests of the shareholders and other interested parties are observed.

7.1.1 Material corporate actions shall be deemed to include reorganisation of the company, acquisition of 30 per cent or more of its voting shares (takeover), making major deals, increasing or reducing its share capital, listing and delisting of its shares, as well as other actions which might result in material changes in the rights of shareholders or infringement of their interests. It is recommended that the company's articles of association

include a list (criteria) of transactions or other actions amounting to material corporate actions and refer consideration of such actions to the jurisdiction of the board.

7.1.2 The board of directors shall play a key role in passing resolutions or making recommendations relating to material corporate actions, relying on the opinions of the company's independent directors.

7.1.3 When taking material corporate actions which would affect rights or legitimate interests of shareholders, it is recommended that equal terms and conditions be guaranteed for all shareholders; if the statutory machinery designed to protect shareholders' rights proves insufficient, additional measures be taken to protect their rights and legitimate interests. In such instances, the company shall comply with the formal requirements of law and also with the principles of corporate governance set out in this Code.

7.2 The company shall provide a procedure for taking material corporate actions that enables its shareholders to receive full information about such actions in due time and influence them, and also guarantee that the shareholder rights are observed and duly protected when such actions are taken.

7.2.1 It is recommended that information about material corporate actions be disclosed with explanations of the grounds, circumstances and consequences.

7.2.2 It is recommended that rules and procedures in relation to material corporate actions by the company be embodied in its internal documents.

PART B. RECOMMENDATIONS ON PRINCIPLES OF CORPORATE GOVERNANCE

I. SHAREHOLDERS' RIGHTS AND EQUALITY OF CONDITIONS FOR SHAREHOLDERS IN THE EXERCISE OF THEIR RIGHTS

1.1 The company shall ensure equal and fair treatment for all its shareholders in the exercise by them of their rights to participate in the management of the company.

1.1.1 It is recommended that the company create the best possible conditions for shareholders to participate in the general meeting and develop informed positions on issues on its agenda and to coordinate their actions, as well as an opportunity to express their opinions on the issues being discussed.

1. The procedure for convening, preparing and conducting the general meeting should be regulated by an internal document (Regulations on the General Shareholders' Meeting), to be approved by the shareholders in general meeting.

1.1.2 The procedure for notice of a general meeting and the provision of materials for it shall give the shareholders the opportunity for making proper preparation for participation.

2. As a general rule, notice of the general meeting shall be given and its materials made available no later than 20 days before the appointed date. Taking into account the importance of timely notice to shareholders of a forthcoming general meeting and providing the shareholders with its materials well in advance, it is recommended that the company give notice of the meeting and make relevant materials available not less than 30 days before the date set, unless the legislation provides for a longer period.

3. Information about the date of compilation of a list of persons entitled to attend the general meeting should be disclosed at least seven days prior to the date thereof, so that all those wishing to do so could attend the general meeting with their optimal blocks of shares.

4. The notice of the general meeting shall contain all information necessary for the shareholders to make a decision on attending the general meeting as well as their method of participation.

5. In addition to the information which the notice of the general meeting must contain in accordance with the legislation, it is recommended that the following be specified:

1) the exact location of the general meeting, including details of the room in which it will be held;
2) information on documents required for admission to the room in which the general meeting is to be held.

6. In addition to posting a notice (announcement) of a forthcoming general meeting on its Internet site (hereinafter referred to as the Internet), it is recommended that the company publish related materials on the meeting in question on its website along with information about getting to the venue, an approximate form of proxy that a shareholder may issue to his representative to attend the general meeting, and information on how to authenticate such proxy.

7. In accordance with the legislation, a notice of a general meeting and the relevant materials may be sent to shareholders whose rights are recorded by depositaries through such depositaries in electronic form. It is recommended that those shareholders whose rights are recorded in the register be given the opportunity to receive a notice of a meeting and access to relevant materials in electronic form at their request.

To ensure equal treatment of all its shareholders, including foreign shareholders, it is recommended that the company provide information about a forthcoming meeting both in Russian and in a foreign language generally accepted on the financial market.

8. Information about who has raised a particular issue or nominated a particular candidate to management or some other company organ is of great importance to a shareholder wishing to form an objective opinion on an agenda item. This information enables the shareholder to form a more accurate view of the aims of raising the issue for consideration in general meeting and accordingly on optimal ways of settling it. In preparing the general meeting agenda, it is recommended to specify who proposed each of the listed issues and in respect of candidates nominated for election to organs of the company, who nominated them.

1.1.3 During the preparation for and conduct of the general meeting, the shareholders shall have the opportunity to receive clear and timely information about the meeting and its materials, to put questions to members of the company's executive and board of directors, and to communicate with each other.

9. During the period of preparation for the meeting, the company should create the necessary organisational and technical conditions to ensure that shareholders may put questions to members of the company executive or the board, as well as publicly expressing their opinions on the meeting's agenda items. To this end, it is recommended that a company with a large number of shareholders should maintain a special telephone line (hotline) for communication with shareholders, establish a special email address, and provide a forum for discussion of agenda issues on its website.

10. In order to reinforce the validity of general meeting resolutions, it is recommended that companies provide shareholders with the following materials in addition to those made mandatory by law:

1) details of candidates for the company's auditors[2] sufficient to form a view of their professional qualities and independence, including the name of the self-regulating organisation of auditors of which the candidate is a member, description of procedures which are used when selecting external auditors to ensure their independence and impartiality, information on the proposed remuneration of external auditors for their auditing and non-auditing services (including information on fees and other costs of retaining the auditor), and

[2] The company's auditor, who gives an opinion on the reliability of its annual accounting (financial) statements and its annual consolidated financial statements.

other material terms of contracts to be entered into with the company's auditors;

2) the position of the board of directors with regard to the general meeting's agenda, as well as dissenting opinions by board members on each item. Such materials are recommended for inclusion into the minutes of a board meeting where such opinions have been expressed;

3) 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 made by an independent valuer, or other information enabling a shareholder to form an opinion on the real value of such property and its movements;

4) when resolutions to increase or reduce the share capital or to approve major or non-arm's length transactions are passed, the reasons why such resolutions were necessary and an explanation of the potential consequences for the company and its shareholders;

5) when amending the company's articles of association and internal documents, tables comparing amendments to be made with the current version, and the reasons why such resolutions were necessary and an explanation of the potential consequences for the company and its shareholders;

6) when approving non-arm's length transactions, a list of persons deemed to have such an interest in the transaction, including the grounds on which such persons were so regarded;

7) sufficient information to form a view of the personal and professional qualities of candidates for directorships or membership of other organs of the company, including information about their experience and professional biographies, as well as whether they meet the requirements imposed on members of company organs if such requirements are imposed by legislation. Where transfer of the powers of the sole executive of a company to a management company or manager is considered, details on such management company or manager, including information on its/his affiliation with persons controlling the company should be disclosed;

8) the justification for the proposed distribution of the company's net profit and whether it is consistent with the company's dividend policy, including the payment of dividends and the company's internal requirements, together with explanatory notes and economic justification for the requirement to allocate part of the net profit to the company's internal requirements;

9) details of the procedure for calculating the amount of dividends on preference shares in respect of which the company's articles of association establishes such procedure;

10) information on corporate actions that negatively affected the shareholders' rights to dividends and/or diluted their shareholdings, as well as on any judgments which identified any instances where shareholders had used ways of obtaining income from the company other than dividend payments or the company's liquidation value.

11. The company is recommended not to deny a shareholder the right to review general meeting materials, if, despite typographical and other insignificant errors, the request enables the company to determine his intention and confirm his right to access the requested materials, including the right to receive copies. If there are significant errors, the company is recommended to inform the shareholder immediately to enable him to correct them in due time.

12. The opportunity to review the list of persons entitled to attend the general meeting enables shareholders to assess the balance of power at the forthcoming meeting, to nominate candidates jointly for election to company bodies, to discuss and agree among themselves possible voting options and to appoint their representative to attend the general meeting. The company is recommended to give shareholders entitled to review the list the opportunity to review it as from the date when the company receives it.

1.1.4 There shall be no unjustified difficulties preventing shareholders from exercising their right to demand that a general meeting be convened, to nominate candidates to the company's governing bodies, and to place proposals on its agenda.

13. The company is recommended to increase in its articles of association the period for shareholders to propose items to be included in the agenda of its annual general meeting to 60 days from the end of the calendar year, rather than 30 days as provided for by legislation.

14. If there are typographical or other insignificant errors in shareholder proposals, it is recommended that the company does not refuse to include these proposals on the agenda and does not reject a proposed candidate for election to a company body if the contents of the proposal as a whole are sufficient to determine the shareholder's intention and to confirm his right to submit it. If there are significant errors, the company is recommended to refer them in a timely manner to the shareholder so that he can correct them before the board approves the agenda and the list of candidates for election to company bodies.

15. Having regard to its technical resources, the company should make every effort to create a shareholder-friendly procedure for sending it any requests to convene its general meeting, proposals nominating candidates to its bodies and regarding items proposed to be included in the agenda of the general meeting. In devising such a procedure, the company is recommended to use modern means of communication and to make provision for electronic information exchange.

1.1.5 Each shareholder shall be able to exercise his right to vote without hindrance, in the simplest and most convenient way.

16. With a view to creating the best possible conditions enabling shareholders to attend general meetings, a company with less than 1,000 shareholders owning voting shares is recommended to include a provision in its articles of association whereby ballot forms must be sent to shareholders with notice of their right to attend the general meeting by filling out and sending such voting forms to the company.

17. Registration procedures for the general meeting adopted by the company shall not create barriers to attend affecting any of its shareholders and shall be defined in detail in the company's internal documents. It is recommended that an internal document regulating preparing for and holding the general meeting contain an exhaustive list of documents to be submitted to the ballot committee for registration.

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

19. To avoid errors and abuse in the registration of those attending the meeting and the tabulation of voting results, it is recommended that the company engage a registrar to act as a ballot committee, even if such engagement is not required by legislation. It is recommended that contracts for the ballot committee include conditions that the registrar, when exercising the functions of a ballot committee, shall be guided by the articles of association and internal documents of the company governing the preparation and conduct of the general meeting, and shall be liable in damages for any failure to perform these functions or improper performance thereof.

20. It is recommended that the company create systems allowing shareholders to vote electronically, if the appropriate technical resources are available. In particular, in order to create the best possible conditions for shareholders to attend general meetings, the company should make provision for shareholders to complete an electronic ballot form, for example, through the "My Account" section on the company's website, provided that adequate security measures are in place and that unambiguous identification (authentication) of persons attending the meeting is possible.

21. The company should conclude its general meeting in one day, in order to avoid extra expenditure by shareholders. If it is not possible to conclude the general meeting in one day for reasons beyond the company's control, it must conclude its meeting at least next day.

Where the articles of association provide that general meetings are to be held in a place other than the site of the company, it is recommended that due consideration be given to the interests of the shareholders and their opportunities to attend such meetings in person.

22. Results of voting should be summed up and declared before the end of the general meeting. This will help eliminate any doubts as to whether the votes have been properly counted and so help to reinforce the confidence of shareholders in the company.

23. To rule out any abuse, it is recommended that the company include a provision in its internal documents whereby a person filling out a ballot form is entitled until the end of the general meeting to ask for a copy of the ballot form certified by the ballot committee (or by representatives of a registrar performing the functions of a ballot committee). For that purpose, it is recommended that the company give any person attending a general meeting an opportunity to make a copy of the completed ballot form, at his own expense.

24. Resolutions of the general meeting shall be available to all shareholders. It is therefore, recommended that the company's articles of association and internal documents include the duty of the company to post the minutes of its general meetings on its website as soon as possible.

1.1.6. Procedures for holding a general meeting set by the company shall provide an equal opportunity for all persons present at the general meeting to express their opinions and ask questions that might be of interest to them.

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

26. In order to promote shareholder participation in monitoring the financial and economic activities of the company, shareholders shall be given the opportunity to put questions to the sole executive, the chief accountant, [3] members of the internal audit committee, the chairman or other members of the board's audit committee and the external auditors of the company regarding conclusions submitted by them, and to obtain answers to their questions accordingly. Therefore, the company should invite such persons to attend the general meeting.

27. It is recommended that the company invite candidates nominated for election to the board and internal audit committee to attend the general meeting in question (and invited candidates are recommended to attend such a general meeting) so that shareholders have an opportunity to ask them questions and to assess the said candidates.

28. Those attending a meeting should have an opportunity to communicate and consult with each other freely on issues relating to voting at the general meeting, but without interfering with the procedure for conducting it.

29. Companies with a large number of shareholders are recommended to use telecommunication systems to provide the shareholders with remote access to the general meeting (for example, by broadcasting its proceedings via the company's website or by using video conferencing).

1.2 Shareholders shall be given equal and fair opportunities to participate in the profits of the company by receiving dividends.

1.2.1 The company shall develop and install transparent and comprehensible machinery for determining the amount of dividends and their payment.

30. It is recommended that the company approve a dividend policy, which should be set out in its Regulations on Dividend Policy, an internal document of the company drafted and approved by the board of directors. The dividend policy should be on a medium- or long-term basis. If there is a change in its dividend policy, the company should explain the reasons and prerequisites for such changes to its shareholders in detail. If such a change is not due to the company's development needs or to the economic situation as a whole, for example, if it is due to a transfer of corporate control in the company, it cannot be regarded as good corporate practice.

31. To ensure transparency of the machinery for determining the amount of dividends and their payment, it is recommended that the Regulations on Dividend Policy define the rules governing the procedure for arriving at the share of net profit to be allocated to the payment of dividends, the conditions under which dividends are declared, the procedure for calculating the amount of dividends on any shares on which the dividend amount is not set by the company's articles of association, and the minimum amount of dividends payable on shares of different categories (types).

[3] If the company's accounts are kept by any person other than its chief accountant, it is recommended that the company provide the opportunity to question any official in charge of keeping its accounts or, if such accounts are kept by an organisation or individual retained by the company under a contract, an official of such organisation or the individual in question.

32. Companies preparing consolidated financial statements are recommended to establish a procedure for determining the minimum share of consolidated net profit to be allocated to the payment of dividends, having regard to statutory restrictions on declaration and payment of dividends for the company itself.

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

34. It is recommended that the company refrain from including any terms in its articles of association that might mislead investors regarding the procedure for determining the dividends payable on preference shares and so might create uncertainty as to whether such preference shares have voting rights.

35. A resolution on dividend payment shall enable shareholders to receive exhaustive information relating to the amount of dividends payable on the shares of each category (type).

36. The procedure for dividend payment should help shareholders implement their rights to receive dividends in the best possible way.

37. It is recommended that the company pay dividends only in cash, since payment in another form makes assessment of the actual amount of dividends paid much more difficult, and the receipt of dividends in the form of such property may involve additional obligations and costs for shareholders.

38. It is recommended that when a company passes a resolution to pay dividends to a company, it should explain to its shareholders that it is important to inform the company in good time of any change in their data required for dividend payments (bank account details, mailing address, etc.) as well as the consequences and risks involved in failure to inform the company of such changes in time.

1.2.2. It is not recommended that the company make a decision on the payment of dividends, if such decision, though not actually in breach of the limits set by legislation, is unjustified from the economic point of view and might lead to false assumptions about the company's activities.

39. This might include, for example, cases where dividends are declared on ordinary shares and/or preference shares if the company has insufficient profit for an accounting year, if its cash flows (or available funds) are insufficient or if the company has failed to implement its investment programme or exceeded its target debt level as set forth in its financial and business plan (budget).

1.2.3. The company shall not allow the dividend rights of its existing shareholders to deteriorate.

40. In practice statutory ways and means of protecting shareholders' dividend rights are not always sufficient. In this regard, when taking corporate actions, the company and its controlling persons should strive to ensure the preservation of existing shareholders' dividend rights and holdings (to include providing existing shareholders with efficient and non-discriminatory machinery to preserve these). For example, if the dividend rights of holders of preference shares depend on the number of the company's ordinary shares, a change in that number must involve an appropriate change in preference shareholders' rights.

1.2.4. The company shall make every effort to exclude ways in which its shareholders can profit (gain) from the company other than dividends and liquidation value.

41. In accordance with proper corporate governance practices, shareholders can profit (gain) from the company solely through the receipt of dividends or liquidation value. It is recommended that the company take all measures to prevent its controllers from profiting (gaining) from the company in other ways, for example, through transfer pricing, internal loans in lieu of dividends or unjustified rendering of services by a controlling person at inflated prices, or by other similar methods.

1.3 The system and practices of corporate governance shall ensure equal terms and conditions for all shareholders owning shares of the same class (category) in a company, including minority and foreign shareholders, as well as their equal treatment by the company.

1.3.1 The company shall create conditions for fair treatment of each shareholder by its governing bodies and controlling persons, in particular, ruling out the possibility of abuse of minority shareholders by major shareholders.

42. Minority shareholders shall be protected from abuse by controlling shareholders acting directly or indirectly and shall be provided with effective remedies should their rights be infringed.

43. Shareholders shall not abuse the rights granted to them. Acts by shareholders intended to harm other shareholders or the company, or any other abuses of the shareholders' rights, are not allowed.

1.3.2 The company shall not perform any actions which will or might result in artificial reallocation of corporate control.

44. The company shall take necessary and sufficient measures to prevent any legal entity controlled by it from taking part in a vote when a resolution is passed by a general meeting.

45. The legislation provides for a ban on participation in company management using treasury stock (stock owned by the company itself), because by voting with such shares company executives could gain control over the company using the resources of the company itself, that is effectively at the expense of its shareholders. This is contrary to the essential nature of a joint-stock company.

46. 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 (quasi-treasury stock), international best practice is based on the inadmissibility of voting with such quasi-treasury stock at a company general meeting.

47. It is recommended that the company place preference shares with the same nominal value as its ordinary shares. Certain rights provided to a shareholder and evidenced by a preference or ordinary share is conditional on payment for an appropriate share in the company’s equity capital. If, should a company allot preference shares whose nominal value differs from that of its ordinary shares, a shareholder acquires a fuller range of rights (more votes) without contributing property of equivalent value to the company and if preference shares become entitled to vote, this cannot be viewed as good corporate practice.

48. The decision to pay or not to pay dividends shall not be used as a tool for redistributing corporate control.

49. It is recommended that the company disclose information about possible or actual acquisition by certain shareholders of a degree of control disproportionate to their participation in the equity of the company, including transactions based on shareholder agreements or by virtue of the existence of ordinary and preference shares with different nominal values.

50. Non-payment of dividends on preference shares, where there are sufficient sources for their payment, as a result of which owners of preference shares are granted voting rights on all issues on the general meeting agenda, cannot be viewed as good corporate practice.

51. Using financial market instruments, for example, entering into repo or loan agreements in respect of treasury or quasi-treasury stock solely with a view to transferring the right to vote on such shares is not in accordance with the requirements of good corporate practice.

52. Similarly, a decision to pay dividends on preference shares where the company's financial means are limited, in order to prevent the holders of preference shares from participating in the company's general meeting with a right to vote on all issues within its jurisdiction cannot be viewed as good corporate practice.

1.4 The shareholders shall be provided with reliable and efficient methods of recording their rights in shares as well as the opportunity to dispose of such shares freely and without hindrance.

53. Protection of a shareholder's ownership rights and guarantees of freedom to dispose of shares owned by him shall be achieved through:

- selection by the company of a reputable registrar with well established and reliable technologies making it possible to guarantee, in a most efficient way, the ownership rights of shareholders and the exercise of their rights;
- joint action with the registrar, aimed at updating the information on shareholders in the shareholder register.

54. Public floating of the company's shares and maintaining a liquid market in them gives shareholders the opportunity to sell their shares promptly and at a fair price.

II. THE BOARD OF DIRECTORS OF THE COMPANY

2.1 The board of directors shall implement the strategic management of the company, define major principles and approaches to organising a risk management and internal control system within the company, monitor the activity of the company's executive bodies, and exercise other key functions.

2.1.1 The board of directors shall be responsible for decisions to appoint and remove executives, including decisions arising from failure to perform duties properly. The board of directors shall also ensure that the company's executive bodies act in accordance with an approved development strategy and the business profile of the company.

55. One of the most important functions of the board of directors is to organise an efficient executive for the company and exercise effective control over its work. The board shall be responsible for making timely and informed staffing decisions regarding the company's executive, including decisions to dismiss any member.

56. The company's executive shall be accountable to the shareholders and to the board. However, as a rule, shareholders may receive a report on the activities of the company's executive only at its annual general meeting and so are unable to exercise effective control over its activities. Therefore, it is the board that plays the major part in monitoring the activities of the executive.

57. Effective control by the board over the activities of the executive presupposes inclusion in the company's articles of association of provisions whereby matters relating to the formation of the company's executive, termination of its powers and approval of the terms of contracts with its members, including the terms of their remuneration and other payments, fall within the jurisdiction of the board.

58. It is recommended, in companies with a significant number of organisations under their control, that the powers of the controlling company's board in relation to the nomination of candidates to the executive and to the boards of directors of controlled organisations be defined.

59. The board of directors shall regularly monitor the implementation of the company's strategy and business plans by its executive, in accordance with established criteria and ratings.

60. The board of directors is recommended to hear reports from time to time from a sole executive or from the members of an executive board on implementation of the strategy, with particular attention to conformity of the company's performance with the targets set in the company's strategy. The board of directors shall decide how often such reports should be submitted, based on the scale of company activity, strategy implementation milestones, and the need to make adjustments from time to time.

2.1.2 The board of directors shall establish basic long-term targets for the company, and shall assess and approve its key performance indicators and principal business goals, as well as its strategy and business plans with regard to its principal areas of operations.

61. The board of directors shall ensure that appropriate resources are assigned to the development of the company's strategy. It shall define the format in which the description of the strategy shall be prepared, discuss and ensure the objective assessment of the strategy development process, and assess and approve it.

62. When assessing the company's strategy the board shall decide whether such strategy is capable of being implemented, having regard to the company's strengths and weaknesses as well as current and forecast economic and financial conditions for its operations,.

63. From a very early stage the board should take part in the discussion of all significant changes to previously approved objectives, strategies or business plans of the company.

64. The company's strategy and business plans shall contain clear criteria, most of which shall be quantifiable, and also set interim target indicators. Such criteria shall enable the board to assess whether the company's economic and financial performance matches its planned targets, the effectiveness of practical measures aimed at implementing its strategy and the extent to which it has been implemented. In accordance with such criteria and indicators, the board shall regularly monitor the implementation of the company's strategy and business plans.

65. Annual approval by the board of the company's financial and business plan (budget) developed and submitted by the company's executive can be one of the main ways of implementing this strategy-setting function. The financial and business plan should be sufficiently detailed to enable the company's executive to take the initiative in managing the company's day-to-day activities.

66. If a company is a controlling entity it is recommended that the powers of its board in relation to defining the development strategy and assessing the performance of companies under its control be specified.

67. It is recommended that the board hold a special meeting at least once a year to discuss issues of strategy, progress in its implementation and updates. The frequency of such meetings should be in accordance with the scale and nature of the company's business, and the risks taken, including those linked with any changes in the economic and legal environment in which the company operates.

2.1.3 The board of directors shall define the principles of and approaches to organising a risk management and internal control system in the company.

68. It is recommended that the company's articles of association assign powers to approve general policy in the area of risk management and internal control to the board.

69. It is recommended that the board of directors assess both the financial and non-financial risks faced by the company, including operational, social, ethical, environmental and other non-financial risks, and define an acceptable level of risk for the company.

70. When approving risk management policies the board must strive to strike an optimum balance between risk and return for the company as a whole, having regard to the requirements of legislation, the provisions of its internal documents and its articles of association. Such policies should provide inter alia that it is essential when performing transactions and operations involving a high risk of loss of capital and investments, to proceed from a reasonable level of risk and for the level of the risk assumed to be within the limits set by the risk management policy.

71. The company's employee incentives system shall be developed having regard to its general risk management policy.

72. The board should organise an analysis and assessment of the risk management and internal control system at least once a year. This analysis and assessment may be based on data in reports received regularly from the company's executive, its internal audit department and the external auditors, as well as on the board's own observations, and information from other sources. The frequency of such analysis and assessment of the risk management and internal control system's functions should be based on the scale and nature of the company's business, the risks taken, and changes in the organisation of its operations. The results of such analysis and assessment shall be considered at a meeting of the board.

73. The company's executive shall report regularly to the board (its audit committee) in relation to the creation and functioning of an efficient risk management and internal control system and shall be responsible for its efficient operation.

2.1.4 The board of directors shall define the company's policy on remuneration and/or reimbursement of costs (compensation) for its board members, members of its executive and other key managers.

74. It is recommended that the company develop and introduce a policy on remuneration and/or reimbursement of costs (compensation) for its board members, members of the executive of the company and other key managers. [4]

75. The policy on remuneration and/or reimbursement of costs (compensation) for its board members, members of the executive of the company and other key managers must comply with the principles of transparency and accountability and take account of the role of those persons in the company's activities.

2.1.5 The board of directors shall play a key role in prevention, detection and resolution of internal conflicts among company organs, shareholders and employees.

76. The company shall be obliged to take all necessary and possible steps to prevent or resolve a conflict (and also minimising its consequences) between organs of the company and its shareholder(s), as well as among its shareholders if such conflict affects the company's interests, inter alia by using out-of-court dispute resolution procedures, including mediation.

77. The board of directors shall play a key role in identifying and settling such conflicts, providing an opportunity for effective protection for all shareholders in the event of infringement of their rights.

78. If at any stage a conflict affects or might affect the company's executive, it should be referred to the board (corporate governance committee attached to the board) for settlement. Board members whose interests are or might be affected by the conflict shall take no part in resolving it.

79. To prevent corporate conflicts, the company is recommended to create a system to bring out transactions involving a conflict of interest (in particular, any transactions entered into for the personal benefit of its shareholders, members of the board or other organs or employees of the company). Such system requires procedures that ensure:

1) timely receipt by the company of up-to-date information on persons associated[5] or affiliated with members of the board, the company's sole executive, members of its executive board, other key managers and any conflict of interest involving the said persons (including information on whether they have a stake in the transactions); and
2) that decisions to enter into transactions involving a conflict of interest are made or control is exercised over the terms of such transactions by persons with no conflict of interest and are not influenced by any persons with such a conflict of interest.

80. The company shall ensure that the above procedures are complied with by the company's employees by applying disciplinary measures, and that such compliance is taken into account when evaluating the performance of those persons.

[4] For the purposes of this Code, key managers shall mean the company's sole executive or members of its executive board, and those of its employees who hold important positions within the company's executive management structure and directly influence the efficiency of financial and business operations. A list of persons (positions) falling within the category of key managers shall be drawn up by the company board.

[5] For the purpose of this Code, in relation to an individual, his/her associated persons shall mean: his/her spouse, parents, children, adoptive parents, adopted children, siblings (including half-sisters and half-brothers), grandparents, and any other individual residing together with such first individual and having a common household with him/her.

2.1.6 The board of directors shall play a key role in ensuring that the company is transparent, discloses information in full and in due time, and provides its shareholders with unhindered access to its documents.

81. Timely and full disclosure of information is a vital tool in establishing long-term relationships of trust with shareholders, helping to increase the value of the company and raise capital and maintain the confidence of interested parties (partners, customers, suppliers, the public, and state agencies). In this regard, monitoring the proper organisation and efficient operation of the system of information disclosure by the company and ensuring shareholder access to company information is one of the most important functions of the board of directors. To perform this function, the board is recommended to approve the company's information policy which shall provide for a reasonable balance between the company's openness and its commercial interests.

82. The board is recommended to assign the duty to monitor compliance with the company's information policy to a board committee (its audit committee or corporate governance committee) or the company secretary.

2.1.7 The board of directors shall monitor the company's corporate governance practices and play a key role in its material corporate events.

83. The board of directors shall monitor the company's corporate governance practice, which involves analysis on a regular basis of conformity of the company's corporate governance system and its corporate values with the goals and challenges facing the company, as well as with the scale of its activities and the risks assumed.

84. Assessment of corporate governance practice should be focused on delineation of powers, defining the responsibilities of each organ of the company and assessment of the performance of its functions and duties.

85. According to the results of such evaluation, the board is recommended to make proposals aimed at improving such practice, and if necessary proposing appropriate amendments to the company's articles of association and internal documents. It should also take appropriate staffing decisions or, if such decisions are within the jurisdiction of the company's executive, submit proposals on staffing solutions to the latter.

2.2 The board of *directors* shall be accountable to the company's shareholders.

2.2.1. Information about the board's work shall be disclosed and made available to the shareholders.

86. It is recommended that the company disclose information on the number of board and board committee meetings held during the past year, indicating the form of the meetings and information on which board members were present at such meetings in the company's annual report and on its website.

87. It is recommended that the company publicly disclose information on the discharge by its board of its responsibilities associated with its role in the organisation of an efficient risk management and internal control system in the company.

88. It is recommended that the company disclose in its annual report the principal results of assessment of the performance of its board and executive.

89. If decisions was taken during a financial year on early termination of the powers of the company's executive, It is recommended that the company also give the reasons for these in its annual report.

2.2.2 The chairman of the board of directors shall be available for contact with the company's shareholders.

90. Shareholders shall be given the opportunity to put questions to the chairman of the board of directors on issues of board jurisdiction, as well as to state their opinion (position) on such matters via the "My account" section on the company's website, the company secretary, the office of the chairman or any other available and user-friendly method.

2.3 The board of directors shall be an efficient and professional governing body of the company, capable of making objective and independent judgements and pass resolutions in the best interests of the company and its shareholders.

2.3.1. It is recommended that only persons with an impeccable business and personal reputation be elected to the board of directors; they shall also have the knowledge, skills and experience necessary to make decisions within the jurisdiction of the board of directors and essential to perform its functions efficiently.

91. The personal and professional qualities of a board member or his reputation shall not give rise to doubt as to whether he would act in the best interests of the company and its shareholders. In this regard, it is recommended that only persons with impeccable business and personal reputations be proposed and elected to the board, with the knowledge, skills, and experience necessary to make decisions within the jurisdiction of the board, and required to perform its functions efficiently.

92. If a board member has a conflict of interest, that is a valid reason for doubt as to whether he would act in the best interests of the company. In this connection, it is not recommended that a person who holds office as an executive and/or is an employee of a legal entity competing with the company be elected to the board.

93. It is recommended that the company and its controlling individuals strive to create an effective and professional board of directors as a management body capable of make objective and independent judgements in which issues within its jurisdiction are discussed, studied and efficiently resolved in due time.

2.3.2 Board members shall be elected via a transparent procedure enabling the shareholders to obtain sufficient information about the candidates in order to form a view of their personal and professional qualities.

94. The company should ensure that its board members are elected via a transparent procedure that takes into account the diversity of views of its shareholders and ensures that the composition of the board is in conformity with statutory requirements, the tasks facing the company and its corporate values. Preliminary discussion by shareholders on candidates nominated to the board is good corporate governance practice. Such discussion shall be organised by the board's nomination committee.

95. Shareholders should have the opportunity to obtain information about candidates for board membership sufficient to enable them to form a view of their personal and professional qualities. In particular, immediately after approval of the list of candidates it is recommended that the company give information about the person (group of persons) who has nominated a particular candidate, information on the candidate's age and education,

positions held during a period of at least the last five years, his position at the time of his nomination, the nature of his relationship with company, his membership of the boards of other legal entities, as well as about nomination to the board of directors or for election (appointment) to office in other legal entities, information on his relationships with affiliates and major trading partners of the company, and any other information that might affect the candidate's ability to perform his duties, along with other information about himself provided by the candidate. In addition, it should be stated whether a candidate meets the requirements imposed on independent directors. If the shareholder who has nominated him, or the candidate himself, has failed to provide all or part of the above information, the company should disclose the fact. The company is recommended to use an Internet forum for agenda items, to gain shareholders' opinions as to whether candidates meet the criteria of independence.

96. A candidate's written consent to be elected to the board or to work on a committee (where such candidate is expected to participate in the work of a board committee or committees) should be required, and notice that such consent has been obtained.

97. Information on candidates for membership of the board shall be provided as part of materials made available for preparing for and conducting a general meeting of the company.

98. Minutes of a general meeting at which election to the company's board is being considered should include information as to which of the board members elected have been elected as independent directors.

2.3.3 The composition of the board shall be balanced, in particular in terms of qualifications, expertise, and business skills of its members. The board of directors shall enjoy the confidence of the shareholders.

99. To be able to perform its functions efficiently, the board shall have a balanced composition, *in* particular *in terms of the qualifications and experience of its members and the number of independent directors, and should enjoy the confidence of the shareholders.*

100. In Russian company practice, as a rule the board includes three categories - executive, non-executive, and independent directors.

In accordance with existing practice, executive directors means members of the company's executive; in accordance with the legislation, such persons may account for no more than a quarter of the total number of elected board members. However, this is a narrow interpretation of the term "executive director". It is recommended that the term "executive director" also be taken to include persons who are members of the executive of its management organisation and/or have employment relations with the company or its management organisation.

2.3.4 The composition of the board of directors shall enable it to organize its activities in a most efficient way, in particular forming committees of the board as well as enabling substantial minority shareholders of the company to elect a candidate to the board for whom they vote.

2.4 The board of directors shall include a sufficient number of independent directors.

2.4.1 An independent director shall be a person who has sufficient professional skills, expertise and independence to hold his own position, capable of making objective and bona fide judgments free from the influence of the company's executive, individual groups of shareholders or other interested parties. It should be noted that, under normal circumstances, a candidate (elected director) cannot be regarded as independent if he is connected with the company, a substantial shareholder, a material trading partner or competitor, or connected with the government.

101. In accordance with best corporate governance practice, 'independent directors' shall be taken to mean persons having sufficient independence of mind to establish their own positions and are capable of making objective and bona fide judgments, free from the influence of the company's executive, individual groups of shareholders or other interested parties and also have a sufficient level of professionalism and experience

102. Although it is impossible to draw up an exhaustive list of all possible circumstances that could affect the independence of a particular director, it is recommended that a person (candidate for election as an independent director) be regarded as an independent director who:

1) is not linked with the company;
2) is not linked with a substantial shareholder;[6]
3) is not linked with a material trading partner or competitor;[7]
4) is not linked with the government (the Russian Federation or a constituent entity of the Russian Federation) or a municipality.

103. A person should be deemed to be connected with the company if at least he and/or persons connected with him:

1) are, or during the last three years have been, members of the executive or employees of the company, an organisation controlled by the company and/or its management organisation;
2) are members of the board of directors of a legal entity that controls the company or a controlled or controlling organisation of such legal entity;
3) during any of the last three years received remuneration and/or other material benefits from the company and/or organisations controlled by it exceeding half the annual fixed fee of a board member. For this purpose payments and/or compensation that such persons received in the form of remuneration and/or reimbursement of expenses resulting from performance of the duties of a board member of the company and/or an entity controlled by it, including

[6] For the purpose of this Code, a substantial shareholder means any person who is entitled, whether directly or indirectly (by way of entities under its control) independently or jointly with other persons associated with it by virtue of a property trust management agreement and/or a simple partnership agreement and/or a commission agreement and/or a shareholder agreement and/or another agreement the subject matter of which is the exercise of rights evidenced by shares (interests) in the issuer to cast five or more per cent of the votes attaching to the company's voting shares in its share capital.

[7] For the purpose of this Code, a material trading partner of the company means any person being a party to a contract or contracts with the company under which the obligations amount to two or more per cent of the book value of its assets or two or more per cent of the proceeds (receipts) of the company (taking into account a group of organisations controlled by the company) or of a material trading partner (group of organisations which includes a material trading partner of the company).

payments relating to their liability insurance as board members, as well as income and other payments received by such persons in respect of any securities issued by the company and/or an entity controlled by it shall not be taken into account;

4) are owners or beneficiaries8 of company shares which account for more than one per cent of the share capital or the total number of voting shares or whose market value exceeds 20 times the annual fixed fee due to a board member;

5) are employees and/or members of the executive of a legal entity if their remuneration is set (considered) by the remuneration committee of such legal entity's board of directors or by its board and that any employee and/or member of the executive of the company is a member of the said committee (board of directors);

6) provide advisory services to the company, an entity controlling the company or legal entities controlled by the company or are members of management bodies of organisations providing such services to the company or the said entities or were employees of such organisations directly involved in the provision of such services;

7) during the last three years provided the company or any legal entities controlled by the company with appraisal, tax advisory, auditing or accounting services or were members during the last three years of management bodies of organisations providing such services to the said legal entities or of the company's rating agency or were employees of such organisations or rating agency directly involved in the provision of such services.

104. In addition, a person shall be deemed to be connected with the company if he has been a member of its board of directors for over seven years in total.

105. A person shall at least be deemed to be connected with the company's substantial shareholder if he and/or persons connected with him:

1) are employees and/or members of the executive of a substantial shareholder (a legal entity from a group of organisations which includes a substantial shareholder);

2) during any of the last three years received remuneration and/or other material benefits from a substantial shareholder (a legal entity from a group of organisations which includes a substantial shareholder) exceeding half the annual fixed fee of a board member. For this purpose payments and/or compensation that such persons received in the form of remuneration and/or reimbursement of expenses as a result of their performance of the duties of a board (board committee) member of the company (a legal entity from a group of organisations which includes a substantial shareholder), including payments relating to their liability insurance as board members, as well as income and other payments received by such persons in relation to any securities of a substantial shareholder (a legal entity from a group of organisations which includes a substantial shareholder) shall not be taken into account;

[8] For purposes of this Code, a beneficiary of the company's shares means an individual who, by virtue of his/her participation in the company under 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.

3) are members of the boards of directors of more than two legal entities controlled by a substantial shareholder of the company or a person controlling a substantial shareholder.

106. A person shall at least be deemed to be associated with any of the company's material trading partners or competitors if such person and/or persons connected with him:

1) are employees and/or members of a management body of a major trading partner or competitor of the company or any legal entities controlling or controlled by a major trading partner or competitor of the company;

2) hold shares (interests) or are beneficiaries in relation to shares (interests) in a major trading partner or competitor of the company which amount to more than five per cent of its share capital or the total number of its voting shares (interests).

107. A person shall at least be deemed to be connected with the government or a municipality if he:

1) is or was, during the year preceding his election to the board of directors of the company, a governmental or municipal employee, an official of a government authority or an employee of the Bank of Russia; or

2) is a representative of the Russian Federation, a constituent entity of the Russian Federation or a municipality on the board of directors of a company in relation to which a resolution has been passed on using a special right to participate in its management ("golden share");

3) is obliged to vote on one or more matters within the jurisdiction of the company's board of directors in accordance with a Directive of the Russian Federation, of a constituent entity of the Russian Federation or of a municipality; or

4) is or was, during the year preceding his election to the board of directors of the company, an employee or a member of the executive or other employee authorised to perform managerial functions of an organisation under the control of the Russian Federation, a constituent entity of the Russian Federation or a municipality, or an employee of a governmental or municipal unitary enterprise or institution (except for employees of governmental or municipal educational or research organisations who are involved in teaching and research and have not been appointed to (confirmed in) the position of sole executive or other position in a governmental or municipal educational or research organisation by decision or with the consent of a governmental authority (or local government body), if such person is nominated for election to the board of directors of a company in which the Russian Federation, a constituent entity of the Russian Federation or a municipality controls more than 20 per cent of the company's share capital or of its voting shares.

2.4.2 Carrying out of assessment is recommended as to whether candidates nominated to the board of directors meet independence criteria, as well as regular analysis to ascertain whether independent board members meet the independence criteria. When carrying out such assessment, substance shall take precedence over form.

108. The board (nomination committee) shall, having regard inter alia to the information submitted by the candidate, assess candidates' independence and give an opinion of his independence as well as regular analysis to ascertain whether independent board members meet the independence criteria and ensure prompt disclosure of information on any circumstances as a result of which a director ceases to be independent. When assessing whether each particular candidate (board member) is independent, substance should take precedence over form.

109. In certain cases, which shall be regarded as exceptional, when making its assessment the board of directors may deem a candidate (board member) to be independent even though he formally meets any criterion of affiliation with the company, a substantial shareholder or material trading partner or competitor, provided that such affiliation does not affect his ability to make independent, objective and bona fide judgements.

110. For example, the board of directors may deem a candidate (elected board member) to be independent under the following circumstances:

1) a person associated with a candidate (board member) is an employee (except an employee with managerial powers) of an organisation controlled by the company or of a legal entity forming part of a group of organisations which includes a substantial shareholder of the company (but not the company itself) belongs, or of a material trading partner or competitor of the company, or of a legal entity that controls a material trading partner or competitor of the company, or of organisations under its control;

2) the nature of relations between the candidate (board member) and the person connected with him is such that they cannot affect any decisions taken by the candidate;

3) the candidate (board member) has a generally acknowledged reputation, including among investors, evidencing his capacity for taking an independent position freely.

111. An independent director shall refrain from acts resulting in his ceasing to be independent. If circumstances resulting in an independent director ceasing to be independent arise after his election to the board, he shall notify the board accordingly. The board shall ensure that information on the board member’s loss of status as an independent director be disclosed. It is recommended that the company incorporate procedures in its internal documents for use if a board member loses his independent status.

2.4.3 Independent directors shall account for at least one-third of all directors elected to the board.

112. Inclusion of independent directors on the board is required if it is to perform its functions efficiently, including those functions connected with protection of shareholders' interests and risk management.

113. Independent directors are meant to make a significant contribution to discussion and decision-making, above all on such issues as developing a strategy for the company’s development and assessing whether the company’s activities are in accordance with that strategy, preventing and resolving corporate disputes, evaluating the performance of the executive, assessing whether the company’s activities are in accordance with the interests of all its shareholders, disclosing reliable information on the company’s activities in due time, reorganising or increasing its share capital or making material changes to the company’s articles of association which affect shareholders' rights, as well as on issues relating to the

procedures for company takeover and other vital issues, resolution of which may affect shareholders' interests.

114. To enable independent directors to influence resolutions to be passed by the board, it is recommended that they account for at least one-third of its total membership.

2.4.4 Independent directors shall play a key role in preventing internal conflicts in the company and in its performance of material corporate actions.

115. Independent directors have a special part to play in prevention of corporate conflicts and assessment of material corporate actions. It is recommended that they carry out a preliminary assessment of possible actions and draft resolutions that might lead to corporate conflict. A document containing such assessment must be included in materials for a board meeting at which the issue in question is to be considered.

2.5 The chairman of the board of directors shall help it perform the functions assigned to it in the most efficient way.

2.5.1 It is recommended either to elect an independent director to the post of chairman of the board, or to nominate a senior independent director among the company's independent directors to coordinate their work and liaise with the chairman.

116. The chairman of the board shall ensure the efficient organisation of its work and its interaction with other bodies of the company. In this regard it is recommended to appoint a person as chairman who has an impeccable business and personal reputation and extensive experience of work as a top manager, and whose honesty, integrity and commitment to the company's interests are beyond doubt.

117. To create an efficient system of checks and balances at board level, it is recommended either to elect an independent director as chairman of the board or to nominate a senior director among the company's independent directors. For this purpose it is recommended that the senior independent director act as adviser to the chairman of the board, helping to organise its work more efficiently and coordinating interaction among the independent directors, including convening, and chairing meetings of independent directors as necessary.

118. It is recommended that the senior independent director play a key role when assessing the efficiency of the board chairman and in planning succession to the position of chairman.

119. It is recommended that the senior independent director, together with the chairman of the board, be available for discussion with shareholders via the "My account" section on the company's website, the company secretary, the office of the board chairman or by any other available and user-friendly method.

120. In a conflict situation (for example, if there are significant disagreements within the board or when the chairman fails to pay attention to issues for which individual board members seek consideration or for which shareholders are entitled to apply to the board), the senior independent director shall make efforts to resolve the conflict by liaising with the chairman, other board members and shareholders with a view to ensuring efficient and stable work by the board.

121. The rights and duties of the senior independent director, including his role in resolving conflicts in the board, shall conform to the recommendations of this Code and be clearly set out in the company's internal documents and made clear to board members.

2.5.2 The board chairman shall ensure that board meetings are held in a constructive atmosphere, that any items on the meeting agenda are discussed freely and shall monitor the implementation of resolutions passed by the board.

122. The chairman of the board shall arrange for developing a plan of work for the board, monitoring the implementation of its resolutions, drawing up agendas for board meetings, devising the most efficient solutions on issues on the agenda and when necessary organising free discussion of these issues and a constructive atmosphere for meetings.

123. The chairman of the board of directors shall ensure that its committees work efficiently, including taking the lead in nominating members of the board to a particular committee based on their professional and personal qualities and taking account of proposals by board members regarding the composition of committees.

2.5.3 The chairman of the board shall take all necessary steps to supply the board members in time with the information essential to decision-making on issues on the agenda.

124. It is recommended that the internal documents of the company specify the duty of the chairman to *take all necessary steps to supply board members in good time with the information essential to taking decisions on issues on the agenda,* and to take the lead in drafting resolutions on the issues under consideration.

125. It is recommended that the chairman of the board maintain constant contacts with other bodies and officials of the company with a view to obtaining fullest and most reliable information essential to decision-making by the board.

2.6 Board members shall act reasonably and in good faith in the interests of the company and its shareholders, on the basis of sufficient information and with due care and diligence.

2.6.1 Acting reasonably and in good faith means that board members shall make decisions considering all available information, with no conflict of interest, treating shareholders equally, and in the context of normal business risks.

126. Board members shall perform their duties reasonably and in good faith, with due care and diligence and in the interests of the company and its shareholders and achieve sustainable and successful development of the company.

127. The board shall consider the interests of other interested parties, including employees, creditors, and trading partners of the company. The company should be socially responsible, so the board of directors is recommended to take decisions in compliance with accepted environmental protection and social standards.

128. If a board member has a potential conflict of interest,[9] inter alia if he has an interest in a transaction by the company, he should notify the board of directors accordingly and in any case put the interests of the company before his own.

[9] A conflict of interest means any clash between the company's interests and the personal interests of a board member or the executive board or a sole executive; this means any direct or indirect personal interests or interests favouring a third party, including any interests arising by virtue of such member's business, friendship, family or other ties and relations, positions held by him/ or by any persons affiliated with him in any other legal entity, his or such persons' ownership of shares in another legal entity, or a clash between such person's duties to the company and to such other legal entity. A conflict of interest may arise, inter alia, from entering into a transaction in which the said person is

129. Board members shall make every effort to involve themselves actively in the work of the board.

130. In cases where decisions of the board may have different consequences for various groups of shareholders, the board shall treat all shareholders fairly.

131. It is recommended that the company establish a procedure (and an appropriate budget) in accordance with which board members could seek professional consultation at the company's expense on issues relating to the jurisdiction of the board.

132. It is recommended that board members refrain from acts that will or may lead to conflict between their interests and those of the company.

133. It is recommended that if a board member has a conflict of interest, he should promptly inform the board of directors through its chairman or the company secretary both that a conflict of interest exists and how it arose. In any case, such notice shall be given before the start of discussion of the issue in respect of which the board member has a conflict of interest at a board or board committee meeting at which such board member is present.

134. If a board member has a conflict of interest, he may not take part in decision-making. It is recommended that he abstain from voting on issues in respect of which he has a conflict of interest.

135. Where the nature of the issue being discussed or the specific aspects of a conflict of interest so requires, it is recommended that the board of directors suggest that the board member who has the said conflict of interest should not be present at a meeting when the issue is discussed.

136. Board members' activities in the interests of the company call for trust on the part of shareholders, and consequently excluding the possibility of external pressure being exerted on a board member in order to induce him to act (refrain from acting) or make a decision to the detriment of the said interests. In particular, board members and persons associated with them shall not accept gifts from parties with an interest in their decisions or make use of any other direct or indirect benefit offered by such persons (other than symbolic tokens in accordance with generally accepted rules of courtesy or souvenirs during official events). This approach should be specifically provided for in the company’s internal documents.

137. To rule out a conflict of interest, executive directors are recommended to abstain from voting when conditions of contracts with members of the company’s executive are being approved.

138. Ownership of shares in the company by board members increases their interest in its successful development and growth of its capitalization. At the same time, ownership (direct or indirect) by non-executive, or independent directors of substantial shareholdings, may could affect the objectivity and independence of their judgments and conduct.

It is recommended that the board develop a company policy regarding board members’ ownership of shares in the company and shares (interests) in legal entities controlled by the company. Such policy should include provisions on whether an independent director may hold shares in the company and/or shares (interests) in legal entities controlled by the company, on restrictions on such ownership, the duty of a board member to inform the board

---

interested, directly or indirectly in the acquisition of shares (interests) in legal entities competing with the company, or holding office in such legal entities, or entering into contractual relations or forming other links with them.

of his intention to enter into transactions involving shares in the company or shares (interests) in a legal entity controlled by the company and that such transactions have been entered into immediately upon completion.

139. It must be borne in mind that managing a company is a complex process involving a possibility that decisions by organs of the company as a result of reasonable and bona fide performance of their duties will still prove to be wrong and entail adverse consequences for the company.

It is therefore recommended that the company maintain, at its own expense, liability insurance in respect of its board members so that if the company or third parties suffer losses through acts by board members, such losses are recoverable. Liability insurance will enable the company to recover its losses, but also to attract competent professionals to the board who would otherwise fear that substantial claims might be brought against them.

140. The duty to act reasonably and in good faith in the interests of the company is also imposed by legislation on its executive. It is accordingly recommended that the recommendations and comments set out in this Code regarding reasonable and bona fide acts by board members and their liability insurance should also apply to the company's executive.

2.6.2 The rights and duties of board members shall be clearly stated and incorporated in the company's internal documents.

2.6.3 Board members shall have sufficient time to perform their duties.

141. Conscientious and efficient performance of his duties by a board member means inter alia that he should have enough time to devote to his work on the board, including its committees.

142. It is recommended that board members inform the company's board of their intention to take a position in the management of other organisations and immediately after their election (appointment) to the management of other organisations to inform the board of the fact.

2.6.4 All board members shall have an equal opportunity to access the company's documents and information. Newly elected board members shall be provided with sufficient information about the company and the work of its board as soon as practicable.

143. The efficiency of work by board members (especially non-executive directors and independent directors) largely depends on the form, timing and quality of information they receive. The information periodically submitted to board members by the executive is not always sufficient for board members to perform their duties properly. In this regard, it is recommended that board members request additional information when such information is necessary to make an informed decision. The duty of the company's officials to provide the board members with such information shall be incorporated in the company's internal documents.

144. Board members should be given an opportunity to obtain all information essential to the performance of their duties, including information on legal entities controlled by the company.

145. It is vital to ensure that board members have the opportunity to obtain all necessary information as well as to request information from the company and promptly receive answers to their queries. All board members shall have equal rights of access to the documents of the company and of legal entities under its control.

It is recommended as a principle that if documents requested by a board member contain confidential information, including trade secrets, this shall not prevent such document from being supplied to the board member. The board member receiving such information shall be obliged to keep it confidential, and the said duty shall be incorporated in the company's internal documents. To confirm that he has undertaken to keep the information confidential, appropriate written acknowledgement or definition of such duty in a contract with the board member may be required.

146. The company shall not refuse to supply information to board members on the ground that, in the opinion of the company, the information requested has nothing to do with the agenda of a meeting or the jurisdiction of the board.

147. The company shall have created a system that ensures regular dissemination of information to board members on the most important events in the financial and business activities of the company and of legal entities under its control, as well as on other events affecting shareholders' interests.

148. In addition, it is recommended that the internal documents of the company impose a duty on the executive and the heads of the principal structural subdivisions of the company to supply full and reliable information in good time on issues on the agenda of board meetings or at the request of any board member, and also define liability for failure to comply with the said duty.

149. It is also recommended that provision be made for the methods and procedures for the supply of information by the executive to board members, for example, by way of the secretary of the company, to be incorporated in the internal documents of the company.

150. Board members, especially those elected for the first time, shall have an opportunity to acquire 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 of the company, as well as other essential information about the company's business, in a short time. In this regard, it is recommended that the company devise a procedure enabling newly elected board members to become familiar with the said information.

2.7 Meetings of the board of directors, preparation for them, and participation of board members therein shall ensure efficient work by the board.

2.7.1 It is recommended that board meetings be held as necessary, having regard to the scale of the company's activities and its outstanding tasks for a specified period.

151. Board members shall participate actively in the board meetings, including discussing and voting on matters on their agenda, as well as in work of its committees.

152. Discussion of issues and recommendations by committees of the board as well as passing resolutions on them shall account for a considerable part of the time at a board meeting.

153. It shall be possible in the company to allow board meetings to be held both in praesentia and in absentia.

154. It is recommended that board members inform the board in advance of their inability to attend a board meeting, giving reasons.

155. It is recommended that the minutes of a meeting of the board contain information on how each member voted on various matters on the agenda.

156. It is recommended that meetings of the board be held as necessary, as a rule at least once every two months, and in accordance with a plan of work approved by the board. The board work plan shall include a list of issues to be considered at the relevant meetings.

157. It is recommended that the board hold its first meeting as soon as practicable after the general meeting at which it was elected, to elect its chairman, set up its committees and elect their chairmen.

2.7.2 It is recommended that a procedure for preparing for and holding board meetings be developed and embodied in the company's internal documents, enabling board members to prepare properly for such meetings.

158. When board meetings are held in absentia it is essential to define the procedure and time limits for sending the voting forms to each member and for receiving the completed forms. Such time limits shall be reasonable, and sufficient for receiving voting forms and making decisions on the issues raised therein.

159. It is recommended that the internal documents of the company provide that at board meetings held in absentia the written opinion on agenda items by a board member not present the meeting shall be taken into account when deciding whether there is a quorum and when summing up voting results, and prescribe the procedure for receiving the written opinion of a board member ensuring that such opinions can be promptly sent and received (e.g., by telephone or electronic communication).

160. It is also recommended that board members away from the site of a meeting be given the opportunity to participate in discussing and voting on agenda items remotely, via conference and video-conference links.

161. It is recommended that the company's articles of association or internal documents provide for the right of a shareholder holding (or shareholders holding in aggregate) a certain percentage of voting shares in the company to demand that a board meeting be convened to consider vital issues relating to the company's business. Such threshold should be no more than two per cent of the total number of the company's voting shares.[10]

162. To give board members the opportunity to prepare properly for a board meeting, the time set for notice to them should be reasonable and well-founded.

163. Board members shall be given notice of the convening of a board meeting, its form, and the agenda, enclosing materials relating to the agenda items, in time to allow them to formulate a position on the agenda items. As a rule, they shall be notified at least five calendar days in advance.

164. The board members should be have an opportunity to preview a work plan and a schedule of board meetings as well as the opinions of board committees and/or independent directors in relation to items on the agenda.

165. It is recommended that the internal documents of the company provide for the form of notice of a board meeting and the procedure for sending (providing) information ensuring prompt delivery (including electronic communication) most acceptable to board members.

[10] In cases where the legislation has prescribed other requirements as to the relevant threshold percentage of voting shares, this recommendation shall not apply.

166. It is recommended that, in order to create effective machinery for holding board members to account, the company maintain and keep transcripts of board meetings with the minutes or use other methods of recording to reflect the position of each board member on issues on the agenda. Dissenting opinions of board members shall be enclosed with minutes of board meetings and shall be an integral part thereof.

2.7.3 The format of a board meeting shall be determined with due regard to the importance of issues on the agenda. The most important issues shall be resolved at meetings held in praesentia.

167. The in praesentia form is preferable for board meetings, giving the members an opportunity for a more thoughtful and complete discussion of the agenda items.

168. It is recommended that the form of a board meeting be determined having regard to the importance of issues on the agenda. The most important issues shall be resolved at meetings held in praesentia. These include, in particular:

1) approval of priority business areas and the financial and business plan of the company;
2) convening an annual general meeting of shareholders and making the decisions necessary for convening and holding it and convening or refusing to convene an extraordinary general meeting;
3) preliminary approval of the company's annual report;
4) election and re-election of the chairman of the board;
5) formation of the company executive and premature termination of its powers if the articles of association assign this to the jurisdiction of the board;
6) suspension of a sole executive of the company and appointment of a provisional sole executive, if the articles of association do not assign formation of the executive to the jurisdiction of the board;
7) submission for consideration by the general meeting of proposals for the company's reorganisation (including defining a conversion ratio for the company's shares) or liquidation;
8) approval of material transactions[11] by the company;
9) approval of the company's registrar and the conditions of the contract with him, as well as the termination of such contract;
10) submission for consideration by the general meeting of the transfer of powers of a sole executive to a management company or manager;
11) consideration of the material aspects of the activities of legal entities controlled by the company; [12]

[11] Material transactions by a company mean its major transactions, substantial non-arm's length transactions (the company shall determine whether they are substantial), and other transactions that the company deems to be material.

[12] The material aspects of the activities of legal entities controlled by the company mean transactions by such legal entities as well as other aspects of their activities that, in the opinion of the company, materially affect the financial position, financial results or changes in the financial position of a group of organisations which includes the company and legal entities controlled by it.

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 contributed as payment for additional shares placed by the company);

14) a review of financial activities of the company for a period under review (quarter, year);

15) issues relating to listing and delisting of company shares;

16) review of the results of evaluating the efficiency of the company's board of directors, its executive and key managers;

17) passing a resolution on the remuneration of members of the company's executive and other key managers;

18) review of the risk management policy;

19) approval of the company's dividend policy.

2.7.4 Decisions on most important issues relating to the company's business shall be made at a meeting of the board by a qualified majority vote or by a majority vote of all elected board members.

169. It is recommended that in order to take account as fully as possible of the opinions of all board members when making decisions on the most important issues in the company's activities, provision be made in the company's articles of association for decisions on such matters to be made at a board meeting by a qualified majority of at least three-quarters or a majority of all elected (not lapsed) board members.

170. It is recommended that the issues to be resolved by a qualified majority or majority of all elected board members include:

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

2) approval of the company's dividend policy;

3) a decision on listing the company's shares and/or securities convertible into its shares;

4) determining the price of material transactions by the company and approving such transactions;

5) submission to the general meeting of questions on the company's reorganisation or liquidation;

6) submission to the general meeting of questions on increasing or reducing the share capital of the company, determination of the price (cash value) of property to be contributed as payment for additional shares being placed by the company;

7) submission to the general meeting of questions relating to amendments to the company's articles of association, approval of material transactions of the company, listing and delisting of the company's shares and/or securities convertible into its shares;

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

9) adoption of recommendations relating to a voluntary or mandatory offer received by the company;

10) adoption of recommendations relating to the amount of dividends on shares of the company.

2.8 The board of directors shall form committees for preliminary consideration of the most important issues in the company's business.

2.8.1 It is recommended that an audit committee consisting of independent directors be created for preliminary consideration of any matters connected with monitoring the company's financial and business activities.

171. The audit committee shall be created with a view to facilitating efficient performance of the board's functions relating to its monitoring of the company's financial and economic activities.

172. The principal tasks of the audit committee are:

1) in the area of accounting (financial) statements:

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

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

   c) involvement in consideration of material issues and opinions relating to the company's accounting (financial) statements;

2) in the area of risk management, internal control and corporate governance should there be no corporate governance committee:

   a) monitoring the reliability and efficiency of the risk management and internal control system and the corporate governance system, including assessing the efficiency of risk management and internal control procedures and corporate governance practice and drafting proposals for their improvement;

   b) analysing and assessing the implementation of policies in the area of risk management and internal control;

   c) monitoring procedures that ensure company compliance with the requirements of legislation and ethical standards, rules and procedures of the company, and stock exchange requirements; and

   d) analysing and assessing the implementation of conflict of interest management policies;

3) in the area of internal and external audit:

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

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

   c) review of the plan of work for the internal audit department;

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

e) review of existing limitations of powers or budgetary restrictions on implementation of internal audit which can adversely affect its efficiency;

f) assessing the efficiency of internal audit;

g) considering the necessity for an internal audit system (if that does not exist in the company) and submitting the findings to the board of directors;

h) assessing the independence, objectivity of and absence of conflict of interest in the external auditors of the company, including assessing candidates for auditors of the company, development of proposals on appointment, re-election and removal of the external auditors of the company, on payment for their services and conditions of their engagement;

i) supervising external audits and assessing the quality of audit checks and the auditors' opinions;

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

k) developing and monitoring the implementation of the company's policy defining the principles of provision and combination by auditors of auditing and non-auditing services to the company;

4) in the area of combating malpractice by the company's employees or third parties:[13]

a) monitoring the efficiency of a system of warnings about potential malpractice by the company's employees or third parties, as well as other breaches in the company;

b) monitoring special investigations relating to potential cheating or misuse of insider or confidential information; and

c) monitoring the implementation of measures by executive management of the company in connection with the receipt of information on potential malpractice by employees or other breaches.

173. It is recommended that the audit committee consist of independent directors only.

174. It is recommended that at least one of the independent directors, an audit committee member, have experience and knowledge of preparing, analysing, assessing and auditing accounting (financial) statements.

175. If necessary the audit committee may invite any officers of the company, the head of the internal audit department and representatives of the external auditors of the company to its meetings, as well as retaining, on a permanent or temporary basis, independent consultants (experts) to participate in the work of the audit committee for preparing materials and recommendations on matters in the agenda.

[13] Including negligence, cheating, bribery and corruption, commercial graft, abuses and various illegal activities detrimental to the company.

176. It is recommended that the audit committee or its chairman meet with the head of the internal audit department at least once a quarter to discuss matters within the jurisdiction of that department.

177. It is recommended that the company publicly disclose an assessment prepared by the audit committee of auditing opinions submitted by the company's external auditor, as well as information on whether the audit committee includes an independent director with experience and knowledge of preparing, analysing, assessing, and auditing accounting (financial) statements.

2.8.2 It is recommended that a remuneration committee consisting of independent directors and chaired by an independent director, but not the board chairman, be created for preliminary consideration of any issues connected with the development of efficient and transparent remuneration practices.

178. The remuneration committee helps to establish efficient and transparent practices in the company regarding remuneration of board members, the company's executive and other key managers.

179. It is recommended that the remuneration committee include only independent directors. It is not recommended that the chairman of the board chair the remuneration committee.

180. It is recommended that the following tasks be assigned to the remuneration committee:

1) development and periodic review of the company's policy on the remuneration of board members, the company's executive and other key managers, including working out parameters for short- and long-term incentive programmes for the members of the executive;
2) supervising the introduction and implementation of the company's remuneration policy and the various incentive programmes;
3) preliminary assessment of the work of the company executive and other key managers based on a year's results in the context of the criteria embodied in the remuneration policy, as well as preliminary assessment of whether the said persons achieved their goals as part of a long-term incentive programme;
4) development of conditions for early termination of employment contracts with members of the company executive and other key managers, including all material obligations of company and the conditions on which they are granted;
5) selection of an independent consultant on remuneration of members of the executive and other key managers and, where company policy calls for competitive procedures for selecting the said consultant, setting the conditions for the competition and acting as the competition committee;
6) drafting recommendations to the board on fixing the remuneration of the company secretary and principles governing bonus payments to him, as well as preliminary assessment of his work based on a year's results and proposals on bonus payments to him;
7) preparing a report on practical implementation of the principles of the policy on remuneration of board members, members of the company's executive and other key managers, for inclusion in the annual report and other company documents.

181. The remuneration committee of the board shall supervise the disclosure of information on remuneration policy and practice and on ownership of company shares by board members and members of executive boards and other key managers in the company's annual report and on its corporate website.

2.8.3 Creation of a nominating (appointments and human resources) committee is recommended for preliminary consideration of issues connected with human resources planning (succession planning) and the professional composition and efficiency of the board. A majority of its members shall be independent directors.

182. The nomination committee shall help to strengthen the professional composition of the board and make it more efficient, by making recommendations in the process of nominating candidates for the board.

183. The majority of nomination committee members shall be independent directors.

184. If the chairman of the nomination committee is also chairman of the board, he may not act as chairman at a meeting of the committee at which planning the succession of the chairman of the board is being considered or recommendations are being made regarding his election.

185. If a separate nomination committee cannot be formed, its functions may be delegated to another board committee, for example, the corporate governance committee or the remuneration committee.

186. It is recommended that the following tasks be assigned to the nomination committee:

1) assessment of the composition of the board in terms of professional specialisation, experience, independence and involvement of its members in the work of the board, and defining priority areas for strengthening the composition of the board;
2) interaction with the shareholders, which shall not be confined to the largest shareholders, in the context of selecting candidates for the board. Such interaction shall be aimed at forming a board composition most suited to the aims and tasks of the company;
3) analysis of the professional qualifications and independence of all candidates nominated to the board, based on all information available to the committee; drafting and communicating recommendations to shareholders regarding voting in the election of candidates to the board;
4) description of the individual duties of directors and of the chairman of the board, including the time that shall be spent on issues related to the company's activities, within and beyond the framework of board meetings, in the course of planned and unplanned work. This description (separately for a board member and for its chairman) must be approved by the board and supplied to each new board member and the chairman for review after their election;
5) an annual detailed formalised procedure for self-assessment or external evaluation of the board and its committees from the standpoint of their efficiency as a whole and individual contributions by directors to the work of the board and its committees, drafting recommendations to the board of directors on improving the procedures of the board and its committees,

preparing a report on the results of self-assessment or external evaluation for inclusion in the company's annual report;

6) preparing an introductory course programme for newly elected board members designed to familiarise them with the company's key assets and strategy, its business practices, organisational structure and key managers, as well as board procedures; supervising the practical implementation of the introductory course;

7) preparing a training and upgrading programme for board members which takes account of individual requirements, as well as supervising the practical implementation of the programme;

8) analysis of the current and anticipated needs of the company in terms of the professional qualifications of members of its executive and other key managers dictated by the interests of competitiveness and development and planning succession regarding the said persons;

9) drafting recommendations for the board in respect of candidates for the office of company secretary;

10) drafting recommendations for the board in respect of candidates for membership of the company's executive and other key managerial posts;

11) preparing a report on the results of the committee's work for inclusion in the annual report and other documents of the company.

187. The nomination committee shall define a self-assessment methodology and make proposals on the election of an independent consultant to assess the board's performance. It is recommended that the said methodology and the candidature of the independent consultant be approved by the board.

2.8.4 Having regard to the scale of its activities and the risk level, it is recommended that the company create other board committees (a strategy committee, a corporate governance committee, an ethics committee, a risk management committee, a budget committee, a committee on health, safety and the environment, etc.).

188. The creation of committees of the board is essential to its effective functioning. Board committees are intended for preliminary consideration of vital issues and preparing recommendations to the board for decisions on matters within its jurisdiction.

189. The decision to create a committee of the board shall be made by the board.

190. In addition to an audit committee, a nomination committee, and a remuneration committee, which it is recommended be formed as a matter of priority, the board may also create such other permanent or temporary committees (for resolving particular issues) as it considers necessary, in particular a corporate governance committee, an ethics committee, a risk management committee, a budget committee or a health, safety and environment committee.

191. The work of the strategy committee helps to improve the company's performance in the long term.

192. It is recommended that the following tasks be assigned to the strategy committee:

1) determining strategic goals in the company's business, monitoring implementation of its strategy, devising recommendations for the board of directors on amendments to the company's existing development strategy;
2) defining priority areas in the company's business;
3) devising recommendations on the company's dividend policy;
4) assessing the long-term efficiency of the company's performance;
5) preliminary consideration of and recommendations on matters relating to company participation in other organisations (including direct or indirect acquisition and disposal of interests in the share capitals of organisations, imposing a charge on shares or interests);
6) assessment of voluntary and binding offers to purchase the company's securities;
7) consideration of a financial model and a model to assess the value of the company's business and of its business segments;
8) consideration of reorganisation and liquidation of the company and organisations under its control;
9) consideration of altering the organisational structure of the company and organisations under its control;
10) consideration of reorganisation of business processes in the company and in legal entities under its control.

193. The work of the corporate governance committee promotes the development and improvement of the corporate governance system and practice in the company by preliminary consideration of governance issues related to the jurisdiction of the board, management of relationships between the shareholders, the board and the executive, as well as interaction with legal entities controlled by the company and other interested parties.

194. The work of the ethics committee helps the company to comply with ethical standards and to build relationships of trust in the company. The ethics committee assesses whether the company's activities are in accordance with its ethical principles and may be set out in the corporate code of ethics, proposes amendments to the code, states a position on potential conflicts of interest involving employees of the company, and analyses the causes of conflicts arising from failure to comply with ethical rules and standards.

195. It is recommended that the company approve internal documents defining the tasks of each committee, their powers, the procedure for their formation and work, disclosing information about committees created and ensuring that such committees' recommendations are included in the minutes of the board meeting that considered the issue in respect of which the said recommendation was given.

196. If the board of directors passes a resolution which runs counter to recommendations by a board committee, it should state the grounds on which such recommendations were not taken into account. The said explanation shall be included in the minutes of the board meeting.

2.8.5 It is recommended that the composition of the committees be defined so as to allow comprehensive discussion of issues being considered on a preliminary basis with due regard for differing opinions.

197. The composition of the committees should be defined so as to allow comprehensive discussion of issues under review having regard to differing opinions. It is recommended that each committee consist of at least three board members.

198. Since participation in the work of a committee requires board members to consider in detail each issue being discussed by the committee, it is recommended that a limit be set on the number of committees on which a board member may serve.

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

200. Given the specific nature of issues considered by the audit committee, the nomination committee and the remuneration committee, it is recommended that persons who are not members of the said committees may attend their meetings only at the invitation of their chairmen.

201. The chairman of a committee has a key role in organizing its work. His main task is to ensure objectivity when the committee is devising recommendations for the board. It is accordingly recommended that board committees be headed by independent directors.

2.8.6 Committee chairmen shall inform the board of directors and its chairman on the work of their committees on a regular basis.

202. It is recommended that chairmen of committees keep the chairman of the board informed about the work of their committees.

203. It is recommended that committees submit annual reports on their activities to the board.

2.9 The board of directors shall ensure that the quality of its work and that of its committees and its members is assessed.

2.9.1 Assessment of the quality of the board's work shall be aimed at defining how efficiently the board of directors, its committees and its members work and whether their work meets the requirements of the company development, revitalising the work of the board and identifying areas where it might be improved.

204. Assessment of the quality of the board's work makes it possible to define the extent to which its members contribute to implementing the company’s strategy and its major goals and to enhance the role of the board in reaching the goal of successful company development.

205. It is recommended that assessment of the board's work be conducted with care as part of a formal procedure, and that it include an assessment both of its work as a whole and of the work of its committees and of each board member, including its chairman.

206. The performance of the board chairman shall be assessed by independent directors (chaired by the senior independent director, if such director is elected in accordance with the company’s internal documents), having regard to the opinions of all board members.

207. The criteria for assessment of the board shall provide for the assessment of board members' professional and personal qualities, their independence, the cohesiveness of

their work and the extent of their personal contributions, as well as other factors affecting the efficiency of the board.

208. The results of self-assessment or external assessment shall be considered at a board meeting in praesentia.

209. The chairman of the board and the nomination committee shall, if necessary, develop proposals on how to improve work of the board and its committees, having regard to the results of assessment. Based on the results of individual assessment, recommendations may be made on improving the skills of particular members. If necessary, individual educational (training) programmes shall be developed and implemented. The chairman of the board and the nomination committee shall monitor the implementation of such programmes.

2.9.2 The work of the board of directors, its committees and board members shall be assessed on a regular basis, at least once a year. For independent assessment of the quality of the board's work, it is recommended that an outside organisation (consultant) be retained from time to time, at least once every three years.

210. The efficiency of the board's work may be assessed by the board of directors itself (self-assessment) or by retaining an independent outside organisation (consultant) having be necessary skills to conduct such an assessment. The said assessment shall be conducted annually, and it is recommended that an independent consultant be retained at least once every three years.

III. THE COMPANY SECRETARY

3.1 The company's secretary shall be responsible for efficient day-to-day relations with its shareholders, coordination of the company's actions to protect the rights and interests of its shareholders, and supporting the work of its board of directors.

3.1.1 The company secretary shall have the trust of the shareholders as well as the knowledge, experience and qualifications sufficient for performance of his duties.

211. It is recommended that the person appointed as corporate secretary shall have a degree in law, economics or business and at least two years' experience in the area of corporate governance or management.

212. The appointment as company secretary of a person who is an affiliate of the company or linked with a person controlling the company or with its executive management is not recommended, as this may give rise to a conflict of interest and prevent the corporate secretary from performing his tasks properly.

213. Should a conflict of interest arise, the company secretary must immediately inform the chairman of the board of the fact.

214. The company secretary shall give priority to improving his skills and expertise on a regular basis. With a view to sharing experience, the company secretary is recommended to maintain regular professional contacts, for example, by membership of a professional association of company secretaries.

215. The company should disclose information on the corporate secretary on its website and in its annual report as detailed as that specified for disclosure in respect of board members and members of the company executive.

3.1.2. The company secretary shall be sufficiently independent of the company's executive and have the powers and resources required to perform his tasks.

216. It is recommended that the company secretary report directly to the board of directors, to ensure his independence. For that purpose, the board should have jurisdiction over the following:

1) approval of candidature for the post of company secretary and his dismissal;
2) approval of regulations governing the company secretary;
3) assessment of the company secretary's performance and approval of reports on his work;
4) payment of additional remuneration to the company secretary.

217. It is recommended that the company approve an internal document, regulations governing the company secretary, in the following terms:

1) the requirements of candidature for the position of company secretary;
2) the procedure for appointment and dismissal of the company secretary;
3) the corporate secretary's affiliation and the procedure for interaction with the company's organs and structural subdivisions;
4) the functions, rights and duties of the company secretary;
5) the conditions and procedure for remuneration of the company secretary;
6) responsibility of the company secretary.

218. It is recommended that the functions of the company secretary include:

1) involvement in organising preparations for and conduct of general meetings;
2) supporting the work of the board and its committees;
3) involvement in implementing the company's information disclosure policy and ensuring the preservation of corporate documents;
4) supporting the company's interaction with its shareholders and involvement in preventing corporate conflicts;
5) supporting the company's interaction with regulators, market makers, the registrar, and other professionals involved in the securities market, within the powers conferred on him;
6) ensuring implementation of procedures prescribed by legislation and the company's internal documents guaranteeing the rights and legitimate interests of shareholders and monitoring compliance;
7) promptly informing the board of any breaches of legislation or provisions in the company's internal documents where compliance forms part of the functions of the company secretary;
8) involvement in improving the company's corporate governance system and practice.

219. To perform his functions, the corporate secretary should be given the necessary powers to:

1) request and receive documents of the company;

2) propose issues for consideration by the company's management organs, within the limits of his jurisdiction;

3) monitor compliance by officers and employees of the company with its articles of association and internal documents in respect of issues affecting the company secretary's functions;

4) liaise with the chairman of the board and the chairmen of board committees.

220. Depending on the scope of the company's business, its capital ownership structure and the number of its minority shareholders, the company secretary's functions may be performed by an individual (the company secretary himself) or by a specialised structural subdivision headed by the company secretary.

221. It is not recommended that the corporate secretary combine his work with other functions in the company.

IV. SYSTEM OF REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS, THE EXECUTIVE AND OTHER KEY MANAGERS OF THE COMPANY

4.1 The level of remuneration paid by the company shall be sufficient to attract, motivate and retain persons with the necessary skills and qualifications. The remuneration of board members, the executive and other key managers of the company shall be paid in accordance with the remuneration policy adopted in the company.

4.1.1 It is recommended that the level of remuneration paid by the company to its board members, executives and other key managers be sufficient to motivate them to work efficiently and enable the company to attract and retain competent and qualified specialists. The company shall avoid setting the level of remuneration any higher than necessary, or creating an unjustifiably wide gap between the levels of remuneration of any of the above and of the company's employees.

222. The level of remuneration of members of the company's board of directors, executives and other key managers shall be sufficient to attract, retain, and motivate managers with the necessary professional qualities for efficient company management. It is recommended that the company does not set the remuneration of the said persons at a level above that required to achieve these goals.

223. It is recommended when conducting a comparative analysis of the level of remuneration in comparable companies that the company use a balanced approach to setting a target level of remuneration. Trying to set a remuneration level higher than that in comparable companies is not always justified and may contribute to spiral growth in remuneration in an industry, without achieving results in a particular company or the industry as a whole commensurate with the overall increase in the remuneration level.

4.1.2 The company's remuneration policy shall be devised by the remuneration committee and approved by the board of directors. With the support of its remuneration committee, the board shall monitor the introduction and implementation of remuneration policy in the company and if necessary review and amend the same.

224. The board, acting on behalf of the shareholders and in accordance with their long-term interests and with the support of the remuneration committee, shall develop, approve, and monitor the implementation in the company of a remuneration system including short-term and long-term incentives for members of the company's executive and other key managers.

225. When creating and revising the system of remuneration for members of the company executive and other key managers, the board's remuneration committee shall perform an analysis and submit recommendations to the board regarding each constituent of the remuneration system and their proportional relationships, in order to ensure a reasonable balance between short- and long-term performance results. In this case short-term performance results shall mean the performance results for a period not exceeding three years, and long-term performance results those for a period of at least five years.

226. It is recommended that the remuneration committee and the board carefully analyse the relative size of the variable and fixed constituents of the remuneration system at the creation or amendment stage. If the variable constituents are a substantial part of the system of remuneration for members of the company executive and other key managers, it is recommended that not less than half the target value of the variable constituent go to a long-term incentive programme. In order to ensure a balance between short- and long-term incentives, the company can also provide for deferred payment of a bonus on the results of a year, for example, in equal instalments over the next three years.

4.1.3 The company's remuneration policy shall contain transparent machinery to determine the amount of remuneration for members of the board of directors, the executive and other key managers of the company, as well as regulating all forms of payment, benefits or privilege granted to any of the above.

227. The company's policy regarding remuneration of members of the board, the executive and other key managers shall ensure the transparency of all financial benefits by providing a clear explanation of the approaches and principles used, as well as disclosing detailed information on all types of payment, benefit or privilege granted to members of the board, the executive and other key managers for the performance of their duties.

228. Regardless of the procedures used in the company to define its remuneration policy and its approaches to the use of particular types of remuneration, it should avoid a conflict of interest when fixing a person's remuneration: in particular, a person whose remuneration is under consideration should not participate in discussions or decisions thereon.

4.1.4 It is recommended that the company define a policy on reimbursement of expenses which would contain a list of reimbursable expenses and specify service levels that members of the board, the executive and other key managers of the company can claim. Such policy can form part of the company's policy on compensation.

229. The company's expenses reimbursement policy shall specify a list of reimbursable expenses and the level of service which members of the board, the executive and other key managers may claim when performing their duties.

230. Members of the company board, the executive and other key managers shall be reimbursed (compensated) for expenses incurred when travelling to the sites of board meetings and for other journeys undertaken as part of their duties.

231. It is not recommended that board members be compensated for expenses other than those incurred when travelling to the sites of board meetings or for other journeys undertaken as part of the activities of the board and its committees.

232. It is not recommended that (non-executive and independent) directors be granted pension contributions, insurance programmes (other than directors' liability insurance and insurance related to travel as part of the board's work), investment programmes, or other benefits and privileges.

4.2 The system of remuneration for board members shall ensure that the financial interests of the directors are in line with the long-term financial interests of shareholders.

4.2.1 A fixed annual fee shall be the preferred form of monetary remuneration for board members. It is undesirable to pay a fee for attending individual meetings of the board or its committees. No form of short-term motivation or additional financial incentive for board members is recommended.

233. The fixed fee shall reflect the estimated time and effort expended by a director in connection with preparing for and attending board meetings. It is desirable that the amounts of fixed fees should be differentiated according to the extent of a director's duties on the board, in order to reflect the additional time spent in performing the functions of the chairman of the board, a committee member, a committee chairman or a senior independent director.

234. Attendance at board or committee meetings (including unscheduled meetings), discussion of items on the agenda or passing resolutions thereon is a basic duty of a director and shall not be the subject of a bonus, because the relevant time and effort expended by the director shall be taken into account when fixing the annual fee.

235. It is recommended that the company formulate and publish a clear policy with regard to attendance at board meetings, in the board rules or the rules on board remuneration. The company may provide that payment of the full amount of an annual fixed fee shall be conditional on attendance in person at a specified number of board meetings. Such requirements may apply to board members only if approved and disclosed by the company prior to the general meeting at which such board members were elected.

236. Using forms of short-term incentive for board members runs counter to the principle of alignment of directors' financial interests with shareholders' long-term interests. Short-term incentives include any incentive programme involving assessment of performance, pegging to changes in the company’s capitalisation, and basing bonuses on the results of a period of less than three years.

4.2.2 Long-term ownership of company shares is the greatest contribution to aligning board members' financial interests with the long-term interests of shareholders. However making the right to dispose of shares dependent on the company reaching specific targets, or board members participating in option programmes, are not recommended.

237. If the company practises remuneration of board members with shares, its board remuneration policy shall contain clear and transparent rules regulating the ownership of shares by board members. These rules shall encourage building a holding and owning shares long term, for example, by assuming an obligation to hold such shares for a minimum period and (or) a minimum number of shares. From the standpoint of long-term motivation, it would be best to establish rules allowing a director to dispose of the major part of his shares

in the company only when a specific period (at least one year) has elapsed since his leaving the board.

238. It is recommended that company policy on share ownership by the board also provide for undertakings by the directors to refrain from using hedging arrangements mitigating the motivational effect of long-term share ownership.

239. It is recommended that the company provide and introduce procedures for monitoring compliance by the directors with the rules on share ownership and hedging arrangements.

4.2.3 Provision for any additional payment or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances is not recommended.

240. Provision in respect of board members (including non-executive and independent directors) for any additional payments or compensation (severance payments) in the event of early dismissal in connection with a change of control over the company or other circumstances is not recommended.

4.3 The system of remuneration for members of the executive bodies and other key managers of the company shall provide that their remuneration is dependent on the company's performance results and their personal contributions to achieving these.

4.3.1 Remuneration of the executive and other key managers of the company shall be set so as to ensure a reasonable and justified relationship between its fixed and variable portions that is dependent on the company's performance results and their personal (individual) contributions to the end result.

241. It is recommended that the company define a system of short- and long-term incentives for members of the company's executive and other key managers.

242. It is recommended that the company take into account all benefits and privileges granted to members of the company's executive and other key managers, as well as sources of income related to their membership of management organs in other companies, including subsidiaries and dependent companies, in arriving at the amount of the fixed fee.

243. It is recommended that the remuneration committee develop a set of customised key indices forming a basis for the short-term incentive system, retaining independent consultants if necessary.

The selected indices shall be up to date and linked to the long-term strategy of the company, and their target values shall be demanding. The committee shall submit the key constituents of the short-term incentive programme to the board for approval and subsequently monitor the introduction and implementation of the programme.

244. It is recommended that the results of the short-term incentive programme be assessed for a year or for a period of one to three years, if so required by the nature or scale of the company's business, the risks assumed or a particular stage in company development.

245. The remuneration committee shall consider and decide whether a long-term incentive programme for the company is advisable, having regard to its business model, its corporate values, business planning horizons, the credibility of the long-term indices, the anticipated efficiency of such incentives and the cost of implementing such a programme under the circumstances.

246. It is desirable that the performance of the company in the framework of its short-term and long-term incentive programmes should be assessed in the context of the risks faced by the company, in order to avoid creating incentives favouring risky management decisions detrimental to the long-term interests of the shareholders. This is particularly urgent in the case of credit and other financial institutions, which 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 having regard to the risks faced by a company.

247. The company shall provide for a procedure which would enable it, should it discover manipulation of reported figures or other dishonest acts on the part of the executive or other key managers aimed solely at ostensibly reaching the targets for the company's business, to the detriment of the long-term interests of its shareholders, to ensure that any funds wrongfully obtained by such members or managers are repaid to it. It is recommended that the duty to repay funds wrongfully obtained be defined in contracts to be entered into by the company with the said persons.

4.3.2 It is recommended that companies whose shares are admitted to trading on organised markets introduce a long-term incentive programme for members of the company's executive and other key managers, involving the company's shares (options or other derivative financial instruments, the underlying assets for which are the company's shares).

248. It is recommended that the provision of shares as part of a long-term incentive programme, should be even, at yearly intervals.

A long-term incentive programme should provide that the right to dispose of shares should not arise earlier than three years from the date when such shares were provided. In addition, it is recommended that the right to dispose of the same, on expiry of the said period, be made conditional on certain targets being reached by the company, including non-financial targets if applicable.

249. The long-term incentive programme should also provide that in the event of early dismissal and/or termination of a contract of employment, members of the executive or other key managers shall undertake to refrain from disposing of their shares until three years have elapsed since they were provided with shares as part of a long-term incentive programme.

4.3.3 The amount of severance pay ("golden parachute") payable by the company in the event of early departure of an executive or other key manager at the initiative of the company, provided that there has been no mala fide behaviour on the part of such person, shall not exceed twice the value of the fixed portion of the annual remuneration.

250. It is recommended that the amount of severance pay in the event of early termination of powers and/or of a contract of employment with members of the executive or other key managers, ("golden parachutes") should not exceed twice the annual fixed fee.[14] There should be substantial grounds in support of greater amounts, approval of the appropriate resolution at a meeting of the board and disclosure of information on the reasons for such payments.

[14] This recommendation shall apply unless the legislation provides for a lower amount of severance pay ("golden parachute") on early termination of powers and/or of a contract of employment with members of the company's executive or other key managers.

V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

5.1 The company shall create an efficient risk management and internal control system designed to ensure with reasonable confidence achievement of the company's goals.

5.1.1. The board of directors shall define the principles of and approaches to organising the risk management and internal control system in the company.

251. 251. The board of directors shall be responsible for defining the principles of and approaches to organising the system of risk management and internal control in the company.

252. When creating the risk management and internal control system, it is recommended that the company use generally accepted concepts and practices in risk management and internal control. [15]

253. It is recommended that the principles of and approaches to organising the system of risk management and internal control in the company be defined on the basis of the tasks of such system, which are:

1) ensuring reasonable confidence in achieving the objectives of the company;
2) ensuring efficiency in the company's financial and economic activities and economical use of resources;
3) identifying and managing risks;
4) ensuring that the assets of the company are preserved;
5) ensuring that accounting (financial), statistical, managerial, and other reports are complete and accurate;
6) monitoring compliance with the legislation and with the company's internal policies, regulations and procedures.

254. An efficient risk management and internal control system is one created at various levels of management, having regard to the role of that level in the process of developing, approving, applying and assessing the risk management and internal control system:

1) at the operational level - by introducing and complying with required control procedures in operational processes;
2) at the organisational level - by organisation of functions coordinating the company's activities as part of its risk management and internal control system and ensuring its operation (such as risk management, internal control, compliance control, quality control, etc.).

[15] "The integrated design concept of the internal control system" ("Internal Control - Integrated Framework") by COSO; Concept (COSO) "Risk management by organizations. Integrated model", the Committee of Sponsoring Organizations of the Treadway Commission, International Standard ISO 31000 "Risk management - Principles and Guidelines," International Standard ISO 31010 "Risk management - Risk assessment techniques" and others.

255. Organising a risk management and internal control system calls for institutionalisation of the role and tasks of the company's board of directors, executive, internal audit commission, internal audit subdivisions and other units, as well as procedures for their interaction.

5.1.2 The company's executives shall ensure the establishment and continuing efficiency of the company's risk management and internal control system.

256. The executive shall ensure the creation and support of an efficient risk management and internal control system in the company and shall be responsible for implementing decisions by the board in organising the risk management and internal control system.

257. The company's executive 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 it. The heads of departments shall be responsible, in accordance with their functional duties, for designing, documenting, introducing, monitoring and developing the risk management and internal control system within the functional areas of the company's business entrusted to them.

258. To ensure efficient operation of the risk management and internal control system, it is recommended that the company create (designate) a separate structural unit (units) for risk management and internal control whose tasks would include:

1) general coordination of risk management processes;
2) preparation of methodological documents in support of the risk management process;
3) organisation of training for the company's employees in risk management and internal control;
4) analysis of the company's risk portfolio and making proposals regarding its response strategy and reallocation of resources in managing the relevant risks;
5) compiling consolidated reports on risks;
6) day-to-day supervision of the risk management process by the company's departments and by companies under its control pursuant to the established procedure;
7) preparation and provision of information to the company board and executive on the efficiency of the risk management process and other matters provided for by the company's risk management and internal control policy.

5.1.3 The company's risk management and internal control system shall give an objective, fair and clear view of the current state and future prospects of the company and ensure that its accounts and reports are complete and transparent and that the risks being assumed by the company are reasonable and acceptable.

259. The risk management and internal control system enables the company to respond to risks in good time as they arise, and is a set of organisational measures, methodologies, procedures, norms of corporate culture and actions by the company aimed at achieving an optimal balance between growth in the company's value and profitability and

risks, maintaining financial stability and efficient management, ensuring the safety of its assets, compliance with legislation, the articles of association and internal documents of the company, and preparing reliable statements and accounts in due time.

260. It is recommended that the company provide for a set of measures as part of its risk management and internal control system to prevent corruption and reduce risks to reputation and risks that the company might be held liability for bribery. It is recommended that he company approve an anti-corruption policy defining measures aimed at developing elements of corporate culture, organisational structure, rules and procedures ruling out corruption.

261. It is recommended that the company organise a secure, confidential and accessible method (hotline) for informing the board (or its audit committee) and the internal audit department of breaches of legislation, internal procedures or the ethics code of the company by any of its employees and/or any member of management or of a body monitoring the company's financial and economic activities, as part of the risk management and internal control system.

The hotline can be used to submit proposals to the board or the internal audit department on improving anti-corruption procedures or other internal control procedures. A person who has submitted relevant information shall be protected from any form of pressure (including termination of employment, persecution or any forms of discrimination).

5.1.4 It is recommended that the board of directors take necessary and sufficient measures to ensure that the company's existing risk management and internal control system is consistent with the principles and approaches to its organisation defined by the board of directors and that it operates efficiently.

262. At least once a year the board should review the organisation, operation and efficiency of the risk management and internal control system and make recommendations on improvements if necessary. The results of the review by the board of the system's efficiency shall be submitted to the shareholders in the annual report of the company.

5.2 The company shall organise an internal audit, for regular independent evaluation of the risk management and internal control system and corporate governance practice

5.2.1 It is recommended that internal audits be performed by a separate structural division (internal audit department) to be created by the company or by retaining an independent outside body. To ensure the independence of the internal audit department, it is recommended that its functional and administrative reporting lines are kept separate. Functionally it is recommended that the internal audit department report to the board of directors, while from administratively it shall report directly to the executive body of the company.

263. It is recommended that the board of directors define the best way of organising internal audit, whether by creating a separate structural unit (internal audit department) or by retaining an independent outside organisation.

264. Creation of an internal audit department is the preferred way of organising internal audit.

265. When choosing an outside organisation to be retained for internal audit, the company shall satisfy itself that such organisation is independent and objective and that it and its personnel dealing directly with the company have the necessary professional skills and competence.

266. The company should guarantee the independence of the internal audit department, which is achieved by delineating the functional and administrative lines of reporting.

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

1) approval by the board (audit committee) of an internal auditing policy (Regulations on Internal Audit) setting out the goals, tasks and functions of internal audit;
2) approval by the board of directors (preliminary consideration by the audit committee) of an internal audit work plan and a budget for the internal audit department;
3) receipt by the board (audit committee) of information on the work plan and the conduct of internal audit;
4) approval by the board (preliminary consideration by the audit committee) of decisions on the appointment, dismissal and remuneration of the head of the internal audit department;
5) consideration by the board (audit committee) of significant limitations on the powers of the internal audit department or other restrictions which might adversely affect the conduct of internal audit.

268. In administrative terms of, it is recommended that the internal audit department report to the company's sole executive, which means:

1) allocation of the necessary funds as part of the approved budget of the internal audit department;
2) receiving reports on the internal audit department's operations;
3) provision of support in interaction with subdivisions of the company;
4) administration of policies and procedures of the internal audit department.

5.2.2 When conducting an internal audit, evaluating the efficiency of the internal control system and the risk management system and of corporate governance and applying generally accepted standards of internal auditing is recommended.

269. Assessing the efficiency of the internal control system shall include:

1) analysing whether the goals of business processes, projects and structural units match those of the company, checking the reliability and integrity of business processes (activities) and information systems, including the reliability of procedures designed to prevent unlawful acts, abuses or corruption;
2) checking the reliability of accounting (financial), statistical, managerial and other reports and statements, determining to what extent the results of business processes and the activities of the company's structural subdivisions match its set targets;

3) determining the adequacy of criteria set by the executive for analysing the extent to which the set targets have been met (reached);
4) identifying any weaknesses in the internal control system which have prevented or are preventing the company from reaching its targets;
5) assessing the results of introducing (implementing) measures to eliminate breaches and weaknesses and to improve the internal control system being implemented by the company at all management levels;
6) checking the efficiency and advisability of using resources;
7) checking the preservation of the company's assets;
8) verifying compliance with statutory requirements, the company's articles of association and its internal documents.

270. Assessing the efficiency of the risk management system shall include:

1) checking whether elements of the risk management system are sufficient and mature enough for efficient risk management (goals and tasks, infrastructure, organisation of processes, legal/regulatory and methodological provisions, interaction between structural subdivisions as part of the risk management system, and reporting);
2) checking whether risks are fully identified and correctly assessed by the management at all levels;
3) checking efficiency of monitoring procedures and other risk management measures, including efficiency in the use of the resources allocated for this purpose;
4) analysing information on risks that have arisen (breaches, actual failures to attain set targets, or actual litigation revealed by internal audit checks).

271. Evaluation of corporate governance shall include checks on the following:

1) compliance with the ethical principles and corporate values of the company;
2) procedures for setting company targets and for monitoring and control over meeting these;
3) the level of regulatory provisions and information exchange procedures (including issues of internal control and risk management) at all levels of management, including liaison with interested parties;
4) guarantees of shareholder rights, including companies controlled by the company, and the efficiency of relations with interested parties; and
5) procedures for disclosure of information about the activities of the company and of companies controlled by it.

272. It is recommended that internal audit tasks should extend to:

1) assisting the executive and employees of the company in developing and monitoring the implementation procedures and measures aimed at improving risk management, internal control and corporate

governance;

2) coordinating of work with the external auditor of the company and persons providing advisory services in the area of risk management, internal control and corporate governance;
3) conducting the internal audit of controlled companies as part of the established procedure;
4) preparing and submitting reports to the board and the executive on the results of the internal audit department's work (inter alia those including information on material risks, deficiencies, the results and efficiency of measures taken to address identified deficiencies, results of implementing the internal audit work plan of the department, results of assessing the actual position, the reliability and efficiency of the risk management and internal control system and corporate governance);
5) checking whether members of the company's executive and its employees are complying with the statutory provisions and internal policies of the company on insider information and prevention of corruption and with the requirements of the company's code of ethics.

273. It is recommended that generally accepted standards of internal audit work be applied when organising internal audit. [16]

VI. DISCLOSURE OF INFORMATION ABOUT THE COMPANY AND ITS INFORMATION POLICY

6.1 The company and its activities shall be transparent to its shareholders, investors and other interested parties.

6.1.1 The company shall develop and implement an information policy ensuring the efficient exchange of information by the company, its shareholders, investors, and other interested parties.

274. The company's information policy shall define the aims and principles of information disclosure by the company, compile a list of information, in addition to that laid down by legislation, which the company undertakes to disclose as well as the procedure for disclosure (including the information channels for disclosure and the forms of disclosure), periods during which access to disclosed information shall be provided, the procedure for communication by members of management, officials and employees of the company and its shareholders and investors, as well as representatives of the mass media and other interested parties and measures to check compliance with the company's information policy.

275. The company executive shall implement its information policy. The board of directors shall exercise monitor compliance with the information policy.

276. Interaction with shareholders, investors, analysts, and other interested parties is an important part of the company's information policy. This interaction is facilitated by:

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

1) setting up a special page on the company's website where it posts answers to frequently asked questions from shareholders and investors, a regularly updated calendar of corporate events and other information useful to shareholders and investors;

2) holding regular meetings of members of the executive and other key managers of the company with analysts;

3) organising regular presentations (inter alia in the form of teleconferencing, web translation or webcasts) and meetings with members of management organs and other key employees of the company, accompanying inter alia disclosure (publication) of company accounting (financial) statements or in relation to major investment projects or plans for strategic development of the company.

6.1.2 The company shall disclose information on its corporate governance system and practice, including detailed information on compliance with the principles and recommendations of this Code.

277. It is recommended that the company disclose the following additional information about its corporate governance system:

1) the organisation and general principles of corporate governance applied by the company;

2) its executive organs and their composition, giving the names of the chairman of the executive board and his deputy and biographical details of each member of the executive (including information about their age, education, skills and experience) sufficient to give an idea of his personal and professional qualities, as well as information on the positions they currently hold or have held in at least the last five years in management in other legal entities;

3) the composition of the board of directors, giving the names of the chairman, his deputy and the senior independent director, as well as biographical details of each board member (including information about their age, education, present position, skills, and experience) sufficient to give an idea of his personal and professional qualities, the date when each director was first elected to the board, their membership of the boards of other companies, information as to whether they are independent directors, as well as information on the positions they currently hold or have held in at least the last five years in management in other legal entities;

4) the loss by a board member of his status as an independent director;

5) the composition of committees of the board giving the names of the chairman and independent directors on the committees.

278. It is good corporate governance practice for a person controlling a company to set out his plans for the company in a special memorandum, which should be disclosed. It is recommended that the company make every effort to introduce this practice.

279. For example, the said memorandum can contain information on the plans of the person controlling the company in respect of the shareholding under his control, his intentions to nominate and elect a certain number of independent directors to the board,

guarantees of compliance with market principles in business relations between the company and the person controlling it, his other duties relating to protecting the financial interests of minority shareholders, his plans for developing the company's business, and his duties in relation to the creation of legal entities competing with the company.

280. If a company adopts is own corporate governance code, it should disclose the same and provide explanations on the specific aspects and particular features of the company that caused provisions in its code to deviate from the principles or recommendations in this Code.

6.2 The company shall disclose full, up-to-date and reliable information about itself in good time, to enable its shareholders and investors to make informed decisions.

6.2.1 The company shall disclose information in accordance with the principles of regularity, consistency and timeliness, as well as accessibility, reliability, completeness and comparability.

281. Disclosure of information is one of the most important tools in the interaction of a company with its shareholders and other interested parties (creditors, partners, customers, suppliers, the community and public sector bodies), helping to establish long-term relationships with these and to gain their trust, to increase the value of the company and to raise capital.

282. Implementing the principle of regular, consistent and prompt disclosure of information in corporate governance practice implies:

1) ensuring the continuity of the process of information disclosure. To do this, the company should define a procedure guaranteeing coordination by all the structural subdivisions and departments involved in disclosure of information or activities that may lead to the need to disclose information;

2) disclosure in the shortest possible time of information that may materially affect the company's estimated value and the value of its securities;

3) Concerted and equivalent disclosure of material information in the Russian Federation and beyond if the company's securities, including securities in the form of foreign depositary receipts, are traded on foreign organized markets. Equivalent disclosure means that where information is disclosed on an organised market in one country, information similar in content shall be disclosed in another country where the company's securities are traded on an organised market;

4) prompt provision of information about the company's position regarding rumours or unreliable information giving a distorted view of the company's estimated value or the value of its securities, which represents a risk to the interests of its shareholders and investors.

283. Implementation of the principle of accessibility of disclosed information implies the use by the company of various channels and methods for disclosing information, particularly electronic sources accessible to most interested parties. Channels for disseminating information shall give interested parties free and unimpeded access to the information disclosed by the company. Access to information shall be provided free of charge

and involve no special procedures (obtaining passwords, registration or other technical restrictions) for reviewing information.

284. The company's website is the main source of information disclosure by the company, so its website shall contain sufficient information to form an objective view of material aspects of the company's activities.

285. If foreign investors hold a substantial share of the company's capital, it is recommended that the company, along with disclosure of information in Russian, disclose the same information about itself (including an announcement of a general meeting to be held, its annual report and accounting (financial) statements) in a foreign language generally accepted on the financial market, and ensure free access to it.

286. To comply with the principles of reliability, completeness, and comparability of data disclosed, the company shall seek to ensure:

1) that the information disclosed is readily understandable and consistent and that data are comparable (it is possible to compare company figures for different periods as well as to compare the said figures with those of similar companies);

2) that information provided by the company is objective and balanced. When describing its activities, the company should not refrain from disclosing negative information about itself that is important to its shareholders and investors;

3) that financial or other information disclosed by the company is neutral, that is, such disclosed information should be presented regardless of the interests of any persons or groups. Information is not neutral if its content or form of presentation is selected with a view to obtaining particular results or consequences.

6.2.2 It is recommended that the company avoid using a formalistic approach to information disclosure and disclose material information on its activities, even if disclosure of such information is not required by legislation.

287. The company should disclose information both about itself but also about legal entities controlled by and important to the company.[17] In particular, information on the roles of each of the important legal entities controlled by the company, of key areas in the activities of each, of functional relations between the key companies within the group, and the machinery that maintains lines of reporting and controlled status within the group is an important aspect of information disclosure within the framework of the group.

288. In addition to the information required by legislation, it is recommended that the company also disclose:

1) information on its mission, strategy, corporate values, tasks and the policies adopted by the company;

[17] Legal entities controlled by and important to the company ("important controlled legal entities") shall mean entities controlled by the company each of which accounts for at least five per cent of the total value of its consolidated assets or at least five per cent of the total consolidated receipts, as per the most recent consolidated financial statements of the company, as well as other entities controlled by the company that, in the opinion of the company, have a significant effect on the financial position, financial results and changes in the financial position of a group of organisations to which the company and legal entities controlled by it belong.

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

3) information on its capital structure;

4) information on its social and environmental responsibility.

289. It is recommended that the company also disclose the following information on its financial activities and financial condition:

1) annual and interim financial statements for an accounting period consisting of six months of the current year prepared in accordance with International Financial Reporting Standards (hereinafter referred to as IFRS), if the legislation does not require the company to compile and disclose such financial statements. Annual financial statements shall be disclosed together with the auditor's report, while its interim financial statements shall be disclosed together with a report on the results of an auditor's review or an auditor's report. In addition, the company shall ensure that the audit is carried out as soon as practicable;

2) notes by the executive of the company on its annual and interim financial statements, including management discussion and analysis (MD&A), in particular, analysis of its profitability, financial stability, assessment of changes in the composition and structure of its assets and liabilities, assessment of current and future liquidity of its assets, description of the factors affecting the company's financial condition and trends that might affect the company's activities in the future;

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

4) information on transactions with related parties, in accordance with the criteria set forth by IFRS; [18]

5) information on material transactions in the company and legal entities controlled by it (including interlinked transactions entered into by the company and one and/or more of the legal entities controlled by it);

6) information on a change in the extent of control over a legal entity controlled by the company which is of material importance to the company;

7) information on other significant events affecting the financial and economic activities of the company and of its controlled organisations that are of material importance to the company.

290. It is recommended that the company disclose the following additional information on its capital structure:

1) information on the number of its shareholders;

[18] There is a materiality criterion for disclosure of information on the conditions of one or more interlinked transactions by an issuer and legal entities controlled by it; the criterion is up to one per cent of the value of the assets calculated in accordance with applicable international accounting standards. A detailed description of such transactions means disclosure of the date of the transaction, a description of its conditions, the names of the contracting parties and how they are linked, the grounds on which the transaction is classified as a related party transaction, why such a transaction was entered into, and the transaction amount/what percentage of the value of the assets such amount represents.

2) information on the number of voting shares by category (type) and on the number of shares held by the company and 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 five per cent or more of its share capital or its ordinary shares;

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

5) information about possible or actual acquisition by certain shareholders of a degree of control disproportionate to their holdings in the share capital of the company, including those based on shareholder agreements or by virtue of ordinary or preference shares with various nominal values.

291. It is recommended that the company disclose the following information on its social and environmental responsibility:

1) the company's social and environmental policy;

2) a company report on sustainable development compiled in accordance with internationally recognized standards; [19]

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.

6.2.3 The company's annual report, as one of the most important tools of its information exchange with shareholders and other interested parties, shall contain information making it possible to assess the company's performance results for the year.

292. For an open joint-stock company, the annual report is one of the most important forms of disclosing information on its activities. Not all joint-stock companies are required to disclose their quarterly reports and information on material events (day-to-day disclosure). In addition, day-to-day disclosure of information is designed to give interested persons important information promptly for making investment decisions, while the annual report is to provide company shareholders and investors with a complete picture of the company's performance and development in the year under review, providing aggregated information aimed primarily at long-term investors. In this regard, it is recommended that the annual report include annual financial statements prepared in accordance with the IFRS, together with the auditor's report on the said statements.

293. Along with information provided for by legislation, it is recommended that the annual report include the following additional information about the company and its performance:

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

[19] For example, the Global Reporting Initiative (GRI).

2) addresses to shareholders by the chairman of the board and the sole executive of the company containing an assessment of the company's activities for the year;

3) information on company securities, including placement of additional shares and capital movements during the year (changes in the composition of persons who are entitled to dispose directly or indirectly of at least five 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 belonging to legal entities controlled by the company;

5) key production figures for the company;

6) key figures from 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 its conformity with the company's dividend policy;

9) investment projects and strategic tasks of the company;

10) prospects for the company's development (sales, productivity, controlled market share, revenue growth, profitability, debt to equity ratio);

11) a brief survey of the most significant transactions entered into by the company and by legal entities controlled by it (including interlinked transactions entered into by the company and one and/or more legal entities controlled by it) 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, health protection for its employees, their training, and safety at work;

15) data on the company's environmental protection policy and its ecological policy.

294. Along with the information provided for by legislation, the annual report should include the following information on corporate governance in the company:

1) a report by the board of directors (including committee reports) for the year; it is recommended that this report include inter alia information on the number of board meetings held in praesentia (in absentia), the participation of each board member in meetings, a description of the most important and most complex issues discussed at board and board committee meetings, and the principal recommendations by the committees to the board;

2) the results of assessment by the audit committee of the efficiency of the internal and external audit process;

3) a description of the procedures used to select the external auditors[20] and ensuring their independence and objectivity, as well as information on the remuneration of the external auditors for its auditing and non-auditing services;

4) information on principal results of assessment (self-assessment) of the board of directors and, if an independent outside consultant was retained to evaluate the performance of the board, information on such consultant, on whether he has any links with the company, and on the results of his assessment, as well as on positive changes in the board of directors' work resulting from a previous assessment;

5) information on the direct or indirect ownership of shares in the company by members of the board and the executive of the company;

6) information on whether members of the board and the executive have conflicts of interest (including those linked with their participation in the management organs of competitors);

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

8) a description of the principles and approaches used to motivate key managers, a description of all components of remuneration of key managers (for example, a fixed fee, short-term and long-term incentive programmes, benefits, pension contributions), target relationships between components of remuneration of key managers, a description of the performance indicators which serve as a basis for each of such remuneration components and their target levels, a general description of the company's policy with respect to severance pay for key managers (in particular, the maximum amount);

9) information on the total remuneration for the year:

   a) in respect of a group of at least five most highly paid members of the executive and other key managers of the company, broken down by type of remuneration;

   b) in respect of all members of the executive and other key managers to whom the company's remuneration policy extends, broken down by type of remuneration;

[20] The company's auditor confirming reliability of its financial statements in accordance with Russian Accounting Standards as well as its auditor confirming reliability of its consolidated financial statements in accordance with International Financial Reporting Standards.

10) information on the remuneration of a sole executive for the year which he has received or is to receive from the company (legal entity from a group of organisations which includes the company) with a breakdown by type of remuneration, both for performing the duties of a sole executive and on other grounds;

11) information on loans (credits) by the company (legal entity from a group of organisations which includes the company) to members of its board of directors and executive and information as to whether the conditions of such loans (credits) match market conditions;

12) information on compliance by the company with the principles and recommendations of this Code, and if any principles or recommendations are not complied with, detailed explanations of the reasons for this.

6.3 The company shall provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.

6.3.1 Exercise by the shareholders of their right to access the company's documents and information shall not be made unreasonably difficult.

295. The shareholders' right of access to company information and documents , including those that the company does not disclose, is inter alia one of the most important elements in mechanism to ensure the responsibility of persons controlling the company and members of its management enabling shareholders to justify demands addressed to them for compensation for losses inflicted on the company.

The company should incorporate in its information policy the procedure for giving shareholders access to its information and documents. Such procedure shall not be onerous for the shareholders.

The legislation differentiates the extent of the right of access to company information and documents according to the number of voting shares in the company owned by a shareholder. Shareholders with the same rights shall be given equal opportunities for access to the company's documents.

296. It is recommended that the company's information policy provide that shareholders may obtain the information that they need about legal entities controlled by the company. To provide such information for shareholders, the company must make the necessary efforts to obtain it from the appropriate organisation controlled by the company.

297. It is recommended that if a shareholder's request for access to documents or to supply copies of documents contains typographical or other insignificant errors, the request should not be refused. If there are substantial errors which prevent the company from fulfilling such a request, it is recommended that the company inform the shareholder accordingly, to give him an opportunity to correct them.

298. The company shall not artificially inflate the costs of making and sending copies of the company's documents.

299. The company should strive, having regard to its technical resources, to create a procedure for sending requests for access to its information and documents convenient to shareholders (in particular, regulating the use of modern means of communication and electronic information exchange).

300. It is recommended that the company provide information and documents for shareholders in a way and in a form convenient for them, inter alia using electronic data carriers and modern means of communication (having regard to the wishes of shareholders requesting documents and information as to the form of provision, confirmation of correctness of copies of documents and method of delivery).

6.3.2 It is recommended that the company, when providing information to its shareholders, maintain a reasonable balance between the interests of individual shareholders and its own interests, mindful of its interest in keeping sensitive business information that might have a material impact on its competitiveness confidential.

301. The specific features of the 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 generally available.

In order to achieve a balance between the interests of particular shareholders and its own interests, the company's information policy may provide for a list of information that constitutes a trade or business secret or falls within the category of confidential information. Access to such information can be granted, provided that the shareholder is warned of the confidential nature of the information and undertakes to maintain its confidentiality and that the requirements of federal laws are observed.

302. At the same time, the company's information policy may provide for the right of its executive 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 indicates that there are signs of abuse on the part of the shareholder of the right of access to company information. Such objections may not be arbitrary or unfair and must be consistent with the principle of equality of access for the shareholders, meaning that all things being equal, shareholders must be treated equally.

VII. MATERIAL CORPORATE ACTIONS

7.1 Actions which will or may materially affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") shall be taken on fair terms ensuring that the rights and interests of the shareholders and other interested parties are observed.

7.1.1 Material corporate actions shall be deemed to include reorganisation of the company, acquisition of 30 per cent or more of its voting shares (takeover), making major deals, increasing or reducing its share capital, listing and delisting of its shares, as well as other actions which might result in material changes in the rights of shareholders or infringement of their interests. It is recommended that the company's articles of association include a list (criteria) of transactions or other actions amounting to material corporate actions and refer consideration of such actions to the jurisdiction of the board.

7.1.2 The board of directors shall play a key role in passing resolutions or making recommendations relating to material corporate actions, relying on the opinions of the company's independent directors.

7.1.3 When taking material corporate actions which would affect rights or legitimate interests of shareholders, it is recommended that equal terms and conditions be guaranteed for all shareholders; if the statutory machinery designed to protect shareholders' rights proves insufficient, additional measures be taken to protect their

rights and legitimate interests. In such instances, the company shall comply with the formal requirements of law and also with the principles of corporate governance set out in this Code.

7.2 The company shall provide a procedure for taking material corporate actions that enables its shareholders to receive full information about such actions in due time and influence them, and also guarantee that the shareholder rights are observed and duly protected when such actions are taken.

7.2.1 It is recommended that information about material corporate actions be disclosed with explanations of the grounds, circumstances and consequences.

7.2.2 It is recommended that rules and procedures in relation to material corporate actions by the company be embodied in its internal documents.

303. Material corporate actions shall include primarily reorganisation of the company, acquisition of 30 or more per cent of its voting shares (takeover), entering into major deals or other material transactions (referred to hereafter as material transactions), increasing its share capital, and listing and delisting of its shares. The materiality of other acts by the company (in particular, a change in its principal line of business, renaming, ensuring the protection of its intellectual property, acquisition by the company of a licence or its renunciation and so on), as well as materiality criteria for transactions entered into by the company or entities controlled by it may be defined by the articles of association. Here the board of directors should recognise corporate actions as material if a recommendation is received from independent directors recognising them as such.

304. Having regard to the importance of material corporate actions, the company shall guarantee shareholders an opportunity to influence such actions and enjoy an adequate level of protection of their rights when such actions are taken. This goal is achieved by establishing a transparent and fair procedure based on proper disclosure of information on the reasons for and the terms of material corporate actions and on their possible consequences for the company and its shareholders.

305. It is clear that each material corporate action has its own particular features, both in terms of its effect on the position of the company and the rights of shareholders, and of the rules and procedures for its implementation. In this connection, further comments on the principles and recommendations set out in this chapter are given in respect of specific material corporate actions.

Material transactions by the company

306. The company shall enter into material transactions at fair prices and on transparent terms and conditions ensuring that the interests of all shareholders are protected.

307. It is recommended that the company's articles of association provide machinery assigning consideration of transactions that do not meet the major transactions criteria set by the legislation but are still material to the company to the jurisdiction of the board, by extending the statutory procedure for major transactions by the company to include them and/or by assigning them to the jurisdiction of the board with a resolution that they be approved by at least a three-quarters majority or by a majority vote of all elected (serving) board members. Such transactions should include at least the following:

1) sales of shares (interests) in legal entities controlled by the company material to the latter as a result of which the company loses control over such legal entities;

2) transactions with property of the company or legal entities controlled by it (including interlinked transactions by the company and one and/or more legal entities controlled by it) whose value exceeds the amount specified in the company's articles of association or which is material to the company's business operations;

3) creation of a legal entity under its control that is material to the business of the company.

308. It is also recommended that the company's articles of association extend the statutory procedure for approval of major transactions to transactions which are at the same time major transactions and related party transactions but which are not subject to approval as related party transactions in accordance with the legislation.

309. If there are doubts as to whether a particular transaction is a major one, it is recommended that such a transaction be undertaken in accordance with the procedure laid down for major transactions.

310. It is recommended that all major transactions be approved before they are undertaken.

311. It is recommended that the board should establish control both over material transactions of the company and over material transactions by legal entities controlled by the company, listing such transactions in the company's articles of association or an internal document.

312. The following criteria are recommended for guidance when determining the materiality of a transaction by a legal entity from a group consisting of the company and legal entities controlled by it:[21]

1) the relationship between the value of property to be acquired or disposed of pursuant to the transaction and the book value of the assets of the group of organisations consisting of the company and legal entities controlled by it;

2) the relationship between the value of property to be acquired or disposed of pursuant to the transaction and the market capitalisation of the company.

313. Determining the value of property to be acquired or disposed of pursuant to a major transaction or a related party transaction is within the jurisdiction of the company's board of directors. Here the legislation does not require the retention of an independent appraiser to determine the market value of such property. However, in cases involving the valuation of property to be acquired or disposed of pursuant to a major transaction or a material related party transaction, it is recommended that the board retain an independent appraiser with an established impeccable reputation in the market and experience in the appropriate area or submit grounds for failing to do so.

314. In cases where the decision to approve a material transaction does not formally entitle shareholders to demand that their shares be redeemed by the company, but such transaction is objectively capable of influencing their intention to remain shareholders of the

[21] When determining whether transactions dealt with by this paragraph are material, several interlinked transactions entered into by one or more entities from a group consisting of the company and legal entities controlled by it should also be taken into account.

company, or in cases where the right of the shareholders to demand redemption of their shares cannot be exercised because of the low value of the company's net assets, it is recommended that the person controlling the company undertake to acquire the shares from the shareholders or ensure their acquisition by a legal entity under his control.

315. Shares shall be repurchased or redeemed by the company at a fair price set by an independent appraiser with an established impeccable reputation in the market and experience in the appropriate area, having regard to the weighted average price of the shares over a reasonable period of time, without regard to the effect of the transaction in question entered into by the company (inter alia without regard to changes in the price of shares in connection with dissemination of information on the company's entering into the transaction in question), and also without regard to a discount for selling shares in a non-controlling block.

316. It is recommended when defining the procedure for acquisition of shares in the company by legal entities controlled by it, all of the company's shareholders owning shares of the appropriate category (type) should be guaranteed equal opportunities to sell their shares in the company to a controlled legal entity in proportion to their blocks of appropriate shares in the company on equal terms.

317. A decision to dispose of treasury or quasi-treasury stock by the company shall be assigned to the jurisdiction of the board. by the applicable corporate control machinery. For this purpose, the procedure for disposing of such stock shall give all company's shareholders owning shares of the appropriate category (type) equal opportunities to purchase the shares being disposed of in proportion to their blocks of appropriate shares in the company on equal terms.

318. It is recommended that the company define machinery for preliminary consideration and approval by the board of transactions entered into by third parties on their own behalf but for the account of the company which if be entered into on behalf of the company would be major or related party transactions.

319. It is recommended that the company's articles of association expand the list of grounds on which members of the board as well as other persons covered by legislation are deemed to be interested parties in transactions of the company. When expanding the list of such grounds, it is recommended that actual linkages between the persons concerned be assessed. For example, the recommended starting-point is that if a member of the company board or his affiliate is an employee of a trading partner of the company who has managerial powers but is not formally a member of the management of such trading partner, he also is deemed to be a party with an interest in a transaction between the company and such trading partner.

320. It is recommended that there be preliminary consideration by the company's independent directors of material transactions in which the controlling person has an interest, prior to their consideration at a board meeting, including cases when such an issue is brought before a general meeting. A document setting out their opinion on such an issue must form part of the materials to be provided for the board meeting in question.

321. It is recommended that when monitoring transactions entered into by a legal entity under company control, the board assess possible signs of interest in such transactions on the part of members of the company's management or persons controlling the company.

322. Situations are often met with in practice where at a general meeting which is considering whether to approve a related party transaction, shareholders vote who are not

formally regarded as interested in the transaction but actually are interested in it by virtue of special circumstances of connexity. A similar situation may occur when a meeting of the board of directors is considering a related party transaction. However, such approval of a related party transaction often marks the beginning of a corporate conflict in the company.

323. If there is no formal interest but there exists a conflict of interest or other actual interest in a transaction to be approved it is good corporate governance practice for a shareholder or member of the company's board of directors with an actual interest in the transaction to refrain from voting on approval of such a transaction.

If such actual interest in a transaction is identified prior to its approval, the board of directors should describe such circumstances in materials on the said transaction and recommend that a shareholder or board member with an actual interest in the transaction should refrain from voting on approval of such a transaction.

Reorganisation of the company

324. The board of directors shall be actively involved in setting the conditions for reorganisation of the company.

325. A board decision to refer the issue of reorganisation of the company to a shareholders' meeting shall be taken only if the board is convinced that reorganisation is necessary and its terms are acceptable.

326. When considering whether the reorganisation is acceptable, the board shall assess its terms based on conformity with the interests of shareholders, including those owning small blocks of shares in the company, and determine whether the swap ratios resulting from the reorganisation are fair.

327. It is recommended, for purposes of efficient analysis of these aspects of reorganisation, setting its terms and interaction with the executive on the issue of reorganisation and putting forward candidates for an appraiser whose report will form the basis for approval of the swap ratios that the board of form a special temporary committee consisting of board members. When a related party reorganisation is to be conducted,[22] the said committee shall include independent directors only, allowing proper assessment of the fairness of its terms.

A document setting out the recommendations of such committee must form part of materials for the board meeting at which the proposed reorganisation is to be considered. It is recommended that the independent directors' opinion on issues connected with the terms of the reorganisation be included in the materials for the general meeting whose agenda includes such proposed reorganisation.

328. The board, and the independent directors in particular, must be available for discussion with shareholders in the course of preparation of the board of directors' decision on referring the proposal on reorganisation to a general meeting of shareholders for consideration.

329. Before approval by the board of draft documents connected with reorganisation and before the issue is referred to the general meeting for consideration, it is recommended that board members, including independent directors, be given the opportunity

[22] For the purposes of this Code, a related party reorganisation shall mean a reorganisation in the form of merger or accession (or involving a merger or accession as one of its stages) in which a person or persons controlling the company at the same time controls one or more of the other legal entities taking part in the reorganisation.

to participate in negotiations on the reorganisation and to organise discussion of the progress of these negotiations by the board and/or its committees.

330. It is recommended that an independent appraiser be retained to determine the share swap ratio in a reorganisation. It is recommended that only appraisers with a good business reputation in the market and experience of appraisal in the appropriate area be accepted in a reorganisation. It is recommended that each of the legal entities involved in the same reorganisation be appraised by the same appraiser (inter alia to ensure that identical approaches and assumptions are applied in comparable situations for the purpose).

331. It is recommended that the swap ratio for shares in a reorganisation be determined on the basis of their market price, and should not prejudice the interests of the company's shareholders. The estimated value of shares for purposes of redemption shall not be less than their value as determined for purposes of reorganisation.

332. It is recommended that the general meetings of each of the companies involved in the reorganisation be held simultaneously.

333. In the context of a reorganisation procedure the holders of preference shares who vote on the reorganisation issue with the holders of ordinary shares are likely to be the most vulnerable, because they cannot influence the decision on the reorganisation and its terms are in effect set for, them by the holders of ordinary shares, which produces an inherent conflict of interest at the outset. It is recommended in this connection that if the company being reorganised has preference shares it should satisfy itself in good time that the reorganisation is so implemented as to avoid prejudicing the rights of preference shareholders.

334. If as a result of reorganisation of a company whose shares have gone through a listing procedure ceases its activities (or if as a result of it a substantial part of its assets is assigned), it is recommended that the said reorganisation be carried out in such a way that upon completion the shareholders of the company receive shares in other companies which have been or are being admitted to organised markets.

Takeover of the company

335. It is recommended that the company management monitor strict compliance in the company of the legislative requirements applicable if it takes over another company and also if it is taken over itself, including the requirements for a voluntary offer, mandatory offer and notice of the right to require redemption of company securities, as well as a request by a majority shareholder for compulsory redemption of the company’s securities.

336. The board of directors should be actively involved in procedures relating to the takeover of the company; in particular, it should track and if possible prevent a takeover of the company without submitting a voluntary or mandatory offer, liaising with the person controlling the company with a view to his taking measures to ensure proper performance by the acquirer of shares of his duty to submit a mandatory offer according to the legislation.

337. In particular, the board of directors should track cases of indirect takeover, takeover through acquisition of depositary receipts for company shares, or takeovers by concerted action by several formally unconnected persons without submitting a voluntary offer.

338. The board of directors should also check the grounds for failure to submit a mandatory offer declared by the person implementing a takeover, and whether they are in accordance with the legislation having regard to the principles and recommendations set out

in this Code. In particular, a refusal to make an offer to the shareholders based on a transfer of shares between affiliated persons who are not under overall supervision or if the grounds for failure to submit a mandatory offer reveal a reduction in the size of a block of shares below the appropriate threshold, this should be regarded as bad practice.

339. If it is apparent that the company takeover took place without submitting a voluntary or mandatory offer, the board of directors should propose in particular that the individual effecting such takeover or the persons jointly making the takeover perform their duty to submit the mandatory offer or submit a voluntary offer meeting the requirements imposed on mandatory offers.

340. The board of directors should check the conditions for submitting a voluntary or mandatory offer to the company's shareholders, the grounds and conditions for compulsory redemption of shares including the fairness of the purchase (redemption) price and the feasibility of acceptance of a public offer by the shareholders. The company board shall communicate its opinion on the company takeover and related procedures to the shareholders.

341. It is recommended that the board help to produce a situation in which a person submitting a mandatory offer receives all necessary permits for the acquisition of the block of shares in question well in advance so that acceptance of the mandatory offer by the shareholders is not in breach of the statutory requirements regarding preliminary approval of the acquisition of a block of shares in the company. It is recommended in particular that the company disclose information as to whether any requirements as to preliminary approval apply to the acquisition of a large block of shares. [23]

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

343. If action is taken to take over a company, it is recommended that it publish on its website the voluntary or mandatory offer to purchase its securities, information on a guarantor who has provided a bank guarantee, the bank guarantee, a report by an independent appraiser on the market value of the securities to be acquired, and the position of the board (including the opinions of each of the independent directors) with regard to the takeover, including information on compliance by the person making the takeover with legislative requirements and the principles of corporate governance.

344. The board of directors should also monitor compliance by the company itself when taking over another company with legislative requirements, having regard to the principles and recommendations set out in this Code (in particular it should submit an offer to the shareholders of the company being taken over in the event of an indirect takeover, an acquisition by acquiring depositary receipts for shares in the company being taken over, or a takeover by concerted action by several formally unconnected persons).

345. The company, like any legal entity controlled by it, should not give financial assistance to a person making the (direct or indirect) takeover. This recommendation extends inter alia to any financial assistance given with a view to reducing or releasing obligations incurred by the person making the takeover in connection with the takeover.

[23] For example, the requirements of the Federal Law "On the Procedure for Foreign Investment in Commercial Companies of Strategic Importance to National Defence and State Security."

Listing and delisting of the company's shares

346. It is recommended that the board assess all benefits and costs associated with listing of the company's securities well in advance when considering issues relating to such listing.

347. When considering issues relating to delisting of the company's securities, the board shall ensure complete transparency in taking the appropriate decision, including notice to the holders of the relevant securities of the grounds for such decision and the risks of delisting to the holders of securities and protection of their rights in connection with the delisting procedure.

348. Good corporate governance practice on issues relating to delisting of shares (securities convertible into shares) of a company implies a voluntary offer by the controlling person of the company on fair terms with subsequent mandatory redemption (if the number of acquired shares permits) and delisting of the securities in question on completion of the said procedures.

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

Increase in the share capital of the company, split, consolidation and conversion of shares

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

351. However, in practice the means of protection provided by legislation are not always sufficient. For example, when preference shares of a certain type are placed no pre-emptive right accrues to shareholders holding ordinary shares or to the holders of preference shares of other types. In addition, a pre-emptive right may be an ineffective way of protecting the rights of a shareholder in cases where shares are placed by closed subscription and paid for with property which a shareholder exercising a pre-emptive right does not have. In this case, the economic effect of the acquisition of shares paid for in cash may differ substantially from that in the acquisition of shares paid for with non-monetary assets.

352. It is recommended that the company 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 essential to the principal activities of the company). To assess the property in question, it is recommended that the company retain only appraisers with an impeccable business reputation in the market and experience of appraisal in the appropriate area. In such cases, issues related to increasing the share capital shall be considered by independent directors who shall formulate an opinion as to whether the terms of the proposed increase in the share capital are fair. If the opinion submitted by the independent directors is negative, it is recommended that the company refrain from making a decision on such increase in the share capital of the company.

353. When considering a placement of a new type of preference shares the board shall carefully analyse the advisability of the new type of shares based on the understanding that a simple capital structure, in particular consisting solely of ordinary shares, is preferable for investors in the long term as it is most conducive to the implementation of the principle "one share - one vote", as well as to protecting the property rights of shareholders.

354. In this connection it is recommended that the company satisfy itself when making a decision on amendments to the articles of association providing for the possibility of placing a new type of preference share that their placement does not infringe the dividend rights of existing shareholders and does not lead to dilution of their holdings.

355. If the placement of the new type of preference share does infringe the dividend rights of existing shareholders or leads to dilution of their holdings, the company should amend the rights attached to the shares being placed so as to avoid infringing shareholders' dividend rights or organise the placement of such shares so that the shareholders in question (including those to whom a pre-emptive right does not accrue in accordance with the law) would have an opportunity to buy shares in priority in proportion to the number of shares belonging to them.

356. A split, consolidation or conversion of shares by the company is permissible only provided that this does not adversely affect the rights of shareholders (in particular, a split, consolidation or conversion of shares for the purpose of redistribution (or changing the extent) of corporate control or any acts that would adversely affect the dividend rights of the shareholders or reduce their share in the share capital of the company are unacceptable).