



## **CORPORATE GOVERNANCE CODE**

**2014**

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## FOREWORD

Corporate governance development and efficiency depends on various factors such as legal regulations as well as how well the proper corporate governance norms are established, business ethics, and the level of knowledge, skills and experience of stakeholders.

The fundamental objective of proper corporate governance is support and encouragement for transparency, effective market, respect for laws and clear distinction between power and responsibilities of management, regulatory and implementing authorities.

The “Corporate governance principles” by the Organization of Economic Cooperation and Development approved initially in 1999 and amended in 2004 have been given high significance at the state policy level in order to introduce these standard regulations in all aspects.

This Corporate Governance Code of Mongolia was developed based on recommendations and advice provided by international organizations such as International Finance Corporation, a member of the World Bank Group, practices of other countries of the world, special features and current actual conditions of our country, upon consideration of such matters as effects of corporate governance structure on the economy and positive influences of the market justice on market participants.

This Code was developed to be used specifically by publicly traded companies, i.e. joint stock companies, and can also be used by limited liability companies and other legal persons upon making certain adjustments to suit own special features.

Each company in Mongolia will introduce and implement corporate governance principles in their daily operations, furthermore, create sustainable corporate development and favorable investment conditions and make significant contribution in the rapid economic growth.

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## **CHAPTER ONE. FUNDAMENTALS OF CORPORATE GOVERNANCE**

- 1.1. While developing and implementing corporate governance system, the national legislators and regulators need to properly assess what important role it has in conducting negotiations and developing cooperation at the international level, and improvement of effectiveness of operations. If these circumstances are considered, overly regulations can be avoided, private sector businesses can be supported and conflicts of interest in private and public institutions can be limited. In order to do so, the following principles should be implemented.
  - 1.1.1. Corporate governance system should be developed upon consideration of matters such as influences to the economy, fulfillment of market transparency, justice and efficiency, and encouragement for market participants.
  - 1.1.2. Legal regulations that will affect the implementation of corporate governance code and requirements under the regulations and procedures shall ensure the possibility to respect the laws and implement the laws transparently.
  - 1.1.3. The distribution of duties and responsibilities between authorities should be determined in accordance with the public interests. Availability to execute the power, work performance evaluation, assigned duties and responsibilities and reporting requirements need to be made stricter to meet international standards.
  - 1.1.4. Coordination and implementation monitoring officials should have the power to perform their assigned duties professionally and should be honest. Moreover, any decision they make should be understandable, timely and transparent.

## **CHAPTER TWO. RIGHTS OF SHAREHOLDERS**

- 2.1. The matter of rights of shareholders is one of the important indicators of corporate governance system, thus, the company should ensure its shareholders exercise their rights. The shareholders bear the risk at the amount of investment they made. Therefore, shareholders should be able to participate in making of special decisions specified in the company charter and monitor operations of the company. In order to ensure that, the following rights should be provided.
  - participating in making of important decisions related to company operations;
  - acquiring information about company operations;
  - receiving dividends from company profits;
  - monitoring major transactions and those with conflicts of interests made by the company;
  - receiving shares from remaining assets of the company at the time it is liquidated.
- 2.2. Shareholders will have at least the following rights within the scope of the above-mentioned rights.
  - 2.2.1. Right to participate in the shareholders' meeting**

The board of directors is responsible for announcing and holding the regular and extra-ordinary meetings of shareholders. Under certain circumstances other persons may announce and hold the meetings. The shareholders shall be provided with an opportunity to participate in making decisions regarding any important matter related to company operations at the shareholders' meetings.
  - 2.2.2. Right to receive dividends**

- 2.2.2.1. The company shall develop and implement a dividend policy which is based on the principle to ensure each shareholder receives dividends fairly and regularly and the dividend amount is appropriate.
  - 2.2.2.2. The procedure on determining dividends shall be transparent. In order to do so, the shareholders should be provided with an opportunity to get acquainted with the financial and accounting reports and documents.
  - 2.2.2.3. The dividends must be distributed within the shortest period of time after the decision is made to distribute dividends.
    - 2.2.2.3.1. In the event dividends are not distributed, its reason shall be reported to shareholders.
  - 2.2.2.4. The report on dividend distribution shall be reported at the next shareholders' meeting.
  - 2.2.2.5. It shall be ensured to deliver the dividends to the shareholders in the easiest form and method.
- 2.2.3. Right to give equal votes**
- 2.2.3.1. The shareholders' participation in matters to be decided at the shareholders' meeting will vary depending on the quantity of owned shares, but they must be provided with equal opportunity to exercise their rights.
  - 2.2.3.2. The company shall avoid conducting any action that would limit the right of shareholders to vote. The holders of preferred shares shall have the right to vote on matters related to company re-structuring or liquidation or matters related to limitation of their rights.
- 2.2.4. Right to elect and be elected**
- 2.2.4.1. The Company shall implement the principles to elect the company's board directors and executive management transparently.
  - 2.2.4.2. A system should be in place to ensure detailed information on board candidates shall be distributed to shareholders in timely manner at the same time. Also information on members of the executive management and auditing committee should be distributed.
- 2.2.5. Right to acquire information**
- 2.2.5.1. The company shall ensure the shareholders have the opportunity to receive information about the company at the same time, promptly, in a regular and timely manner. Information that must be delivered includes the annual report of the company, financial status, any risks to the company and other information deemed the most important for company activities.
  - 2.2.5.2. The company management shall certify the registration of shareholders in accordance with the registration issued by relevant registry body. The company management shall disclose the shareholders' registration at request of the shareholder.
  - 2.2.5.3. The company shall develop, have approved and enforced by the board, an information by-law that regulates such matters as what type of information should be publicly disclosed regularly and in timely manner, and activities to be conducted respectively.
- 2.2.6. Right to demand re-purchase of shares**
- 2.2.6.1. The Company Charter shall provide the right to demand purchase of their shares pursuant to the Company Law in the event of a specific decisions issued from the shareholders' meeting, for the shareholders who voted against on such matter or who did not participate in such decision-making. For instance:

- Company restructuring /merger, acquisition, spin-off, re-organization/;
  - Limitation of shareholders' rights;
  - Decision to conduct major transactions or those with conflicts of interests;
  - Joint possession of 75 or more percent of total shares by one person or persons with common interests.
- 2.2.6.2. The shares purchased back will have no voting or dividend rights but this right will be reinstated if they are sold to other persons.
- 2.2.6.3. A special by-law should be in place to regulate such matters as, except for the above cases specified in 2.2.6.2 and those specified in the laws, distributing information that the right has been enacted regarding the sell back of the shares by the shareholders, submission of the demand to purchase back the shares, receiving and resolving such demands, informing the shareholders about the reason for not accepting the demand, and resolving complaints of shareholders arisen in this regard.
- 2.2.7. Pre-emptive right to purchase newly issued shares**
- 2.2.7.1. The shareholders shall have a pre-emptive right to purchase newly issued shares before others.
- 2.2.8. Right to demand inspection on company operations**
- 2.2.8.1. The company shall have the mechanism to regularly control its own operations internally and externally.
- 2.2.8.2. It shall be ensured that the holders of shares equal to at least 10% and more shares of the company have the right to demand the inspection by the independent auditor or other third party auditors.
- 2.2.9. Right to receive shares from remaining property at the time the company is liquidated**
- 2.2.9.1. The shareholders shall have an equal right during activities to liquidate the company. The commission to liquidate the company shall pay off the debt, issue a procedure on how the remaining property of the company would be distributed and be responsible for sharing the property in accordance with the percent of shares owned by each shareholder.

## **CHAPTER THREE. PROFESSIONAL INVESTORS**

### **3.1. Rights and duties of professional investors**

- 3.1.1. Professional investors shall ensure transparency of their corporate governance and voting policies, and the by-law on how they would exercise their voting rights.
- 3.1.2. Professional investors shall make transparent their by-law that regulates potential conflicts of interest that may arise in connection with major investment activities.
- 3.1.3. Shareholders and professional investors shall have the opportunity to consult with each other with the purposes except for those to abuse their basic rights specified in this codex /overuse, abuse, violation of rights specified in the codex/

## **CHAPTER FOUR. SHAREHOLDERS' MEETING**

### **4.1 Power of shareholders' meeting**

4.1.1 Shareholders' meeting is the highest authority of the company.

4.1.2 The shareholders' meeting shall provide the shareholders with the following opportunities.

- oversee company operations,
- participate in discussion and approval of important decisions issued in connection with company operations;
- obtain all financial and non-financial information of the company;
- participate in defining company dividend policies;

4.1.3 The shareholders' meeting shall be responsible for discussing and making decisions on the following issues and the company charter shall have clear provisions in this regard.

- decisions to issue company shares;
- assigning and concluding contracts with third party auditors;
- approve decisions to be issued in connection with how the company would cooperate with legal organizations, public organizations and funds;
- decisions on forming a branch company;
- approving major transactions and those with conflict of interest, and related by-law;
- election of board members and decisions to terminate their full rights prior to their expiration;
- amendments to the company charter, or its revision.

4.1.4 Company shall develop and have approved and enforced by the shareholders' meeting, a by-law on calling the shareholders' meeting that reflects such issues as authority of the shareholders' meeting, when and how decisions should be made and by whom, who should be responsible for preparing the meeting agenda and when, how shareholders and authorized inspection bodies should be notified of the meeting date and agenda, how the meeting should be organized and chaired, how should voting and decision making be conducted and how should these be documented, how meeting materials should be examined, documented and stored, and other relevant matters.

### **4.2 Preparation for shareholders' meeting**

4.2.1 In order to conduct the shareholders' meeting in accordance with the laws, it is important to organize preparation activities. In order to fulfil the above-mentioned requirements, the following issues are important:

- prepare registration list of shareholders as of the last day of registration of shareholders eligible to participate in the meeting;
- provide information to shareholders;
- provide opportunities for shareholders to review and study the agenda items of the shareholders' meeting.

4.2.2 The board of directors shall undertake the following actions in connection with this activity.

- determine the date, time and location of the shareholders' meeting;
- based on the registry list of shareholders, prepare the name list of participants of the shareholders' meeting;
- prepare list of materials to be distributed to shareholders according to the program and print them out;

- prepare the voting procedure in accordance with the meeting program and prepare voting papers;
  - notify shareholders about the date and distribute the program and other relevant materials.
- 4.2.3 Matters in the agenda of shareholders' meeting shall be clearly reflected in the meeting program. The program should not be unclear and should not have such words as "other", "etc." or "different/various".
- 4.2.4 All information necessary for making a decision regarding the items in the agenda of shareholders' meeting must be provided.
- 4.2.5 In order to conduct the shareholders' meeting effectively, the materials of the meeting must be promptly distributed to the shareholders at the same time, thus they should be distributed via registered e-mail or post address of shareholders or by other suitable means of mail and communication.
- 4.2.6 Shareholders who own 5 or more percent of voting shares of the company shall be provided with opportunities to make amendments to the shareholders' meeting agenda.

### **4.3 Conducting shareholders' meeting**

- 4.3.1 The shareholders' meeting shall be conducted upon selecting the most appropriate place, location and time for shareholders. The shareholders' meeting should be organized during the weekend to allow the shareholders be available to perform their main duties.
- 4.3.2 The shareholders' meeting shall be no earlier than 10 am and no later than 6 pm.
- 4.3.3 The matter of organizing and conducting shareholders' meeting shall be the responsibility of the board of directors. The chair, secretary and committee on counting votes of the shareholders' meeting shall be appointed by the board.
- 4.3.4 The meeting shall be started with presentation of the meeting program by the chair of the meeting. The meeting attendance shall be registered by the counting commission and announced at the meeting. The meeting shall be commenced with the sufficient quorum specified in the applicable laws and regulations and the Company by-laws, and the discussion will start according to the program.
- 4.3.5 The meeting participants shall be provided with a full opportunity to say a word and the meeting shall be conducted strictly in accordance with the meeting procedure. The meeting chair shall resolve all organizational matters that may arise during the meeting.
- 4.3.6 Each item in the agenda shall be presented by an assigned presenter and timing for presentation and questions and answers shall be determined. Afterwards, the voting activities will start.

### **4.4 Approval of the shareholders' meeting decisions**

- 4.4.1 The content of the decision to be issued from the meeting must be clear and understandable to shareholders. This will ensure promptness of voting activities, and prevent from circumstances such as misunderstanding on the matter and issuance of a wrong decision.
- 4.4.2 When voting, the shareholders shall express their votes in words "agreed", and "refused", and voting may be conducted transparently or in writing. Votes shall be given in writing in the voting papers which reflect the number of votes of the shareholder, prepared in advance filled with words "agreed" and "refused".
- 4.4.3 Results of voting shall be compiled by the counting committee.
- 4.4.4 Voting paper must contain the following information:
- company name and address;
  - meeting place, location, date and time;
  - meeting program;
  - choices for voting on each matter reflected in the program shall be words "agreed" and "refused".

- 4.4.5 Shareholders shall choose one of the words “agreed” and “refused” to vote.
- 4.4.6 Decision may be made on matters not reflected in the meeting program but may be not approved. Therefore, in order to ensure shareholders can vote on each matter listed in the program, the meeting chair shall be responsible for reflecting all matters required to be discussed completely in the meeting program. Voting shall be done on each item of discussion. It is prohibited to vote on two or more matters jointly.
- 4.4.7 The meeting decision shall be promptly delivered to all shareholders of the company.
- 4.4.8 In the event the shareholders are unable to attend the meeting in person, they will give their votes in writing putting one of the words “agreed” and “refused” and must sign. Regulation on voting if shareholders are unable to attend the meeting in person should be specified in the by-law on announcing and convening the shareholders’ meeting.

#### **4.5 Shareholders’ meeting minutes**

- 4.5.1 The minutes of the shareholders’ meeting should be prepared within 3 business days after the meeting, approved by the meeting chair’s signature and stamp, and signed by the meeting secretary who prepared the minutes.
- 4.5.2 In the event the shareholders make a request to review and receive a copy of the meeting minutes within 5 business days after the meeting was held, a copy of the minutes shall be delivered to them.

## **CHAPTER FIVE. BOARD OF DIRECTORS**

## **5.1. Duties of the board of directors**

- 5.1.1. The board of directors shall be a structure with joint management and its main form of activities shall be meetings.
- 5.1.2. The board of directors shall define the strategy of operations of the company, supervise its implementation, and provide with guidance and recommendations.
- 5.1.3. The board shall execute its duties as follows: protect the investment of shareholders, issue decisions that are efficient for the company, monitor operations of the company and define the policies and strategies. The board shall focus on monitoring of the executive management actions, provide the management team with strategic guidance and recommendations and monitor specifically the internal control, risk management, strategic planning, compliance, major agreements and transactions, and company restructuring /merger, unification, division, separation etc./.
- 5.1.4. The following by-laws should be developed, approved and enforced: the structure and composition of the board, their evaluation and encouragement, criteria for candidates for the board members, board meetings and related issues, board secretary, board committee activities, and other activities of the board.

## **5.2. The board's full rights and its structure**

- 5.2.1. The board shall have a structure that enables proper management and monitoring of company activities. The board shall consist of experienced individuals with qualification in auditing or accounting, finance, law and investment.
- 5.2.2. The number of board members shall be odd. This will ensure the board operates effectively, consists of members with capacity to have a broad view on circumstances while issuing decisions and issue optimal decision based on such views. The number of the board members shall be set accordingly.
- 5.2.3. The board shall have sufficient number of independent members /not less than one third/. The board should have highly skilled and experienced members, should continuously upgrade their knowledge and education on corporate governance, undertake specific actions to ensure fulfilment of the code of ethics, select and nominate its members from the list of independent members of non-governmental organizations and in the event of selecting a member from such NGOs, contracts should be concluded with such organizations.
- 5.2.4. Independent members of the board shall be members who meet the following criteria.
  - did not work for the company or has not been a common interest party for the past 5 years;
  - does not conduct any consulting activity for the company or a party with common interests with the company;
  - is not a supplier or customer of the company or the party with common interests with the company;
  - does not have a service contract with the company or a party with common interests with the company;
  - is not a person with common interests with the company board or executive management member or internal auditor;
  - is not a close relative of a shareholder of the company or a party with common interests with the shareholder;
  - does not hold a position in any form at the company;
  - does not have a business agreement in any form with the company and has no such connection;
  - other requirements specified in the company by-laws.
- 5.2.5. The board chair should be an independent member of the board.
- 5.2.6. It is important to ensure a proper balance between the number of independent members and other members in the board to ensure they can influence the decision making process. The board or company charters should specify the criteria for board members including high professional qualification and work experience.

## **5.3. Duties of the board members**

5.3.1. The board member shall aim at protecting shareholders' interests, increasing the company efficiency and acting fairly for the interests of the company and its shareholders. The board members shall fulfill the following requirements while performing their duties.

- To respect the company interests while performing the duties and responsibility specified in laws, regulations, company charter and bylaws, other relevant documents.
- To implement the duties within the power specified in the laws, company charter and other relevant documents.
- To actively participate in the board and its committees' meetings and other discussions organized by the company and make efforts to acquire necessary news and information within the scope of the discussion subject matter with the purpose to monitor company operations. The board members shall get acquainted in advance with materials delivered before the board meeting, especially, with matters listed in the agenda and financial materials in detail.
- To try to make justified decisions by conducting independent studies and analyses in addition to information provided by the company and inviting external professional experts.
- To avoid considering own interests above those of the company, creating conflicts of interests, creating personal benefits with use of provided power or creating any advantages for the self.
- To keep confidentiality of any confidential and insider information until it is publicly disclosed. It is prohibited to make profit out of use of such information.
- To use skills and efforts while performing assigned duties.

5.3.2. Each board member shall be provided with all necessary information and news in timely manner before issuing any important decisions.

5.3.3. In order to ensure the members perform their duties, the board operation regulations may provide the right to demand information and relevant materials from authorized officials and directors in charge of specific matters.

#### **5.4. Election and dismissal of the board members**

5.4.1. The procedure to appoint the board of directors shall be transparent. In order to enable minor shareholders have an opportunity to nominate board member candidates, the election shall be conducted with use of a voting method.

5.4.2. The board by-law shall provide that all board members are obliged participate in the regular shareholders' meeting in person and provide responses to the questions of shareholders. This is important for shareholders to evaluate knowledge, experience, skills and responsibilities of the board members, issue decisions to re-elect them or not, and increase responsibilities of the board members.

#### **5.5. Committees of the board of directors**

5.5.1. The basis for increasing corporate governance efficiency is the professional committees under the board of directors. These committees have the main purpose to develop proposals on specific issues to support decision making activities of the board and in few cases they shall have the power to make decisions.

5.5.2. The committees shall consist of at least 3 professional, skilled and experienced members to perform their duties. The company may have the following committees:

- remuneration and nomination committee;
- auditing committee;
- risk management committee (this committee operations may be joint with those of the auditing committee).

5.5.3. In addition, permanent and temporary committees may be formed and operated to suit the special features of the operations.

5.5.4. Auditing and remuneration and nomination committees' heads should be independent members.

#### **5.6. Remuneration and nomination committee of the board**

5.6.1. The remuneration and nomination committee shall undertake actions aimed at motivating the board members and authorized officials of the executive management to ensure they make all their efforts to perform their duties. In order to do so, it shall support development of, and approve, the policy to regulate the remuneration matters of the management team, directors, senior staff and authorized officials, evaluate performance of board members, and review their remunerations matters. It should consider the amount and following forms of remuneration.

- fixed salary;
- at each attendance at the meeting;
- salary to chair the meeting;
- salary to manage the board;
- one time recognition salary based on annual results of the company;
- for each time of participation in the committee activities;

Depending on the area of company operations and other circumstances, other forms of remuneration may be considered.

5.6.2. The board members' performance evaluation system should be developed, approved and enforced, and at the end of each report year, every member's performance should be evaluated and his/her remuneration rates should be determined.

5.6.3. The remuneration and nomination committee shall set the remuneration system for the executive management. This remuneration system shall fulfil the interests of shareholders.

5.6.4. The management team remuneration system shall be set to be stable for a long term and this shall be reflected in the company charter and contracts or in a special by-law. The board shall develop and have in place a system to evaluate the management team performance.

5.6.5. The nomination committee shall be established in order to organize activities to fairly elect the board members and nominate executive management members.

5.6.6. The process of nominating and electing the board members shall be announced openly and conducted transparently in accordance with the laws and regulations.

5.6.7. The remuneration and nomination committee shall develop the draft of succession policy of the executive director and the board shall approve and monitor its implementation.

#### **5.7. Auditing committee**

5.7.1. The auditing committee shall be responsible for auditing the following activities, and based on their results, shall issue recommendations to the board, and support effective cooperation of the board members, company management, internal and external auditors:

- auditing on activities to prepare financial reports of the company;
- auditing on normal operations of the internal control system;
- control on auditing activities;
- control on auditing activities on implementation of applicable laws, regulations and procedures;
- auditing on the company's risk management activities.

5.7.2. The auditing committee shall nominate and present the external auditors to the board.

#### **5.8. Transactions with conflict of interests of the board members and parties with common interests**

5.8.1. The company shall have a policy to regulate transactions of parties with common interests and conflicts of interests. Moreover, the company shall approve and enforce a code of ethics of the board. There are cases when a conflict of interests arises

between the personal and financial interests of the board member and the duty to prioritize the company interests.

- 5.8.2. If a board member or a group of members has/have a conflict of interest specified above at the time of issuing decisions on specific matters, it should be notified to the board and the member shall not vote on such matter. In the event the board approves transactions with significant conflict of interests, this should be disclosed to the shareholders and the public.

### **5.9. Duties of the board secretary**

- 5.9.1. The secretary of the board of directors may have the following duties.
- participate in development of the policy about corporate governance;
  - within own power, ensure company employees comply with the corporate governance policy;
  - undertake actions to direct the process of establishing good corporate governance practices in the company;
  - organize activities to prepare, announce and conduct the meetings of shareholders, board and its committees;
  - ensure transparency of company operations by conducting actions to deliver information to the public;
  - participate in the process of resolving any proposals, complaints and requests submitted to the board by shareholders and other stakeholders;
  - undertake relevant actions and prepare proposals regarding dispute resolution within the company.
- 5.9.2. The board secretary shall be a person who meets the minimum requirements specified below:
- possesses higher education;
  - has work experience and professional skills necessary to perform duties of the secretary;
  - possesses knowledge on applicable laws and regulations;
  - fulfils requirements under applicable laws;
  - has no common interests with the company, is independent from a major shareholder of the company.

## **CHAPTER SIX. EXECUTIVE MANAGEMENT**

### **6.1. Rights of the executive management**

- 6.1.1. The executive management shall manage daily activities of the company, be an authorized person to represent the company without proxy and shall implement such duties in the form of executive director or management team.
- 6.1.2. The management team authority shall be exercised based on the contract concluded with the board of directors which shall include rights and duties of the executive management, duration of implementation, amount, limit and grounds for release from liabilities, salary and remuneration.
- 6.1.3. The executive management and management team members shall operate honestly, fairly without conflicts of interests.

## **CHAPTER SEVEN. FINANCIAL REPORTING AND INFORMATION TRANSPARENCY**

### **7.1. Financial reporting**

- 7.1.1. The main purpose of financial reporting is to increase trust of company investors by controlling financial operations of the company. The company shall follow international financial reporting standards in their operations which will help introducing up-to-date

financial reporting system. Moreover, in order to create a reliable financial reporting system, the company shall fulfill the following requirements.

- approve and enforce accounting documents that comply with international standards;
- establish internal control system;
- establish company's risk management system;
- prevent from illegal financial actions by company's executive staff and abuse of property and ensure integrity of the assets;
- ensure transparency and reliability of the information on company operations.

## **7.2. Third-party auditing**

- 7.2.1. Third party auditor shall be apart from conflicts of interests and be independent with high professional skills.
- 7.2.2. Third party auditor shall provide the company with services to issue auditing conclusions and may provide non-auditing services on matters except for those that may create conflicts of interest /tax issues etc./, and fees for such services shall not exceed the total service fee for issuing auditing conclusion. Third party auditor shall conduct operations in accordance with the international auditing standards.
- 7.2.3. Third party auditor should be appointed by the shareholders' meeting. The company shall have an internal procedure that regulates activities to appoint third party auditor.
- 7.2.4. The company shall select and hire the auditor of a third party auditing company to conduct auditing activities for the term of 5 years, and may replace the auditor with another auditor from the same company or choose a different auditing company, if deemed necessary.
- 7.2.5. A procedure should be in place to publicly disclose the reason for replacing the auditor at request of the company or the auditor prior to completion of the above period.

## **7.3. Information transparency**

- 7.3.1. The board of directors shall set a by-law on ensuring that information related to the company operations is fully and timely disclosed to the shareholders and other interested regulatory bodies.
- 7.3.2. The company shall not only fulfil legal requirements but also reflect in their annual report the information such as business definition, financial situation analysis, operational results, changes in assets, cash flow and any material risks and information that makes risk factors transparent in accordance with international good practices.
- 7.3.3. The company shall transparently publicize events and mid-term results. The company shall ensure transparency of information and post its annual report on its official website.
- 7.3.4. The company shall define an information transparency policy and publicly disclose it.
- 7.3.5. The company shall have constant monitoring on whether or not the applicable laws and regulations are fulfilled in regard with insider information and information confidentiality of the company.

## **CHAPTER EIGHT. INTERNAL CONTROL SYSTEM**

### **8.1. Internal control system and internal auditing functions**

- 8.1.1. The company shall have an internal control system in place to ensure transparency and certification of information. The board of directors shall ensure reliable internal control system that certifies results of company's financial goals and implementation.
- 8.1.2. The internal control system shall increase effectiveness of company management operations, evaluate company performance and accordingly provide departments and units with guidance and instructions. Internal control shall cover the following issues.
  - ensure actuality of financial reporting and reliable operations of the information system;

- activities to assess company risks;
  - oversee and inspect daily operations of the company;
  - oversee compliance with the laws, regulations and standards;
  - ensure and oversee compliance with occupational safety regulations and operational procedures;
  - submit the report on internal control activities to the board.
- 8.1.3. The company shall have an internal auditing unit as part of the company's internal control system. The internal auditing activities shall be conducted based on the following principles.
- ensure reliability and conformity of financial and operation information;
  - efficiency;
  - integrity and reliability of assets
  - compliance with laws, company policies, charter and procedures.
- 8.1.4. Internal auditing unit shall be obliged to audit the organization at all levels, and monitor internal control and risk management systems. It shall consist of highly qualified staff who are independent from the executive management.
- 8.1.5. Internal auditing activities shall be conducted within the scope of legislation of Mongolia and according to the standards approved by the international internal auditing institute /IIAI/.

## **CHAPTER NINE. RISK MANAGEMENT**

- 9.1. The board of directors shall be responsible for general activities to provide management for all risks of external and internal operations, finances and compliance, and other risks.
- 9.2. The board shall certify that the company is responsible for actions such as to define, evaluate and analyze the risks and determine their impacts, and shall approve risk mitigation actions and response actions.
- 9.3. The management team shall be responsible for matters such as development, implementation and monitoring on implementation of the risk management procedures and rules.

## **CHAPTER TEN. STAKEHOLDERS**

- 10.1. The company shall respect the rights of its stakeholders (employees, creditors, customers, suppliers, local citizens and the people). The company shall make decisions upon consideration of the interests of the employees, creditors, suppliers, purchasers, customers, and environmental and social issues, and such decisions to be issued shall be based on the considerations on whether or not they would affect the stakeholders.
- 10.2. The company shall provide an opportunity for its stakeholders to access the company information such as its plans and reports.
- 10.3. The company shall comply with the laws, regulations and agreements related to the stakeholders and shall not conduct any actions that violate the interests of its stakeholders specified in the laws and regulations.
- 10.4. The company, in order to ensure effective relations between stakeholders, shall ensure transparency of non-financial information in accordance with applicable laws and international best practices.
- 10.5. The company shall receive and resolve requests and proposals of employees, and have a plan on their social issues and upgrade of their qualification, and shall support the program to ensure employees own shares.
- 10.6. The company shall transparency disclose information related to its stakeholders on economic, social and environmental matters (e.g. anti-corruption policy, labour policy, policy to regulate supplier and customer relations, corporate social responsibility policy, environmental protection policy etc.)