

# **CORPORATE GOVERNANCE CODE**

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## **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 groundswell of new issuers of securities have served to substantially fuel 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 found themselves in 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 then current was still less than adequate, while rampant breaches of minority shareholder and investor rights during the preparation and holding of general shareholders meetings, decision-making on additional share offerings that would dilute the ownership interests of existing stockholders, and malpractices in the course of major transactions and related-party transactions discouraged domestic and foreign investors from buying into Russian businesses and undercut trust in the Russian financial market.

Under the circumstances, the drafting of the Russian Corporate Governance Code (hereinafter in this Foreword referred to as the "Code")<sup>1</sup> has marked 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 guideposts in implementing advanced standards for corporate governance with due regard for the distinctive features of existing Russian legislation and the practical aspects of relations prevalent in evidence on the Russian market among shareholders, members of boards of directors (supervisory boards) (each, a "board" or "board of directors"), executive bodies, employees, and other stakeholders involved in the economic operations of joint stock companies. The Code provided clearly formulated ideas on what should be required of companies, thus contributing to related activism on the part of shareholders and investors.

A group of Russian companies chose to rely upon the Code as a key reference point for the preparation of their own internal documents setting corporate governance standards. As a result, the Code proved appreciably instrumental in bringing about significant overall progress in the advancement of corporate governance practices and the implementation of the relevant best standards accepted on international markets, thus 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 arrangements at

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

Russian businesses have all undergone perceptible changes. A great many problems once of serious concern to Russian companies, including, but not limited to, those connected with the preparation and conduct of shareholder meetings, securities issuance, financial reporting, information disclosure, the payment of income on securities, and shareholder protection during company restructuring, as well as mergers and acquisitions, the principal ways of dealing with which were recommended in the Code, have been successfully addressed by appropriate legislative and regulatory legal acts.

The crisis hitting the global financial system in 2008-09 brought investor and regulator attention to issues involved in the use of corporate governance leverage as an indispensable instrument for enabling companies to gain stability and making for their effective long-term development. By that time, most Russian companies have exhausted the advantages of the Russian economy's 'catch-up' growth and needed to look for other sources and tools of long-term economic growth. Speculative investors, who were dominant at the Russian market during its 'catch-up' growth stage, were no longer interested in Russian companies. As to long-term investors, they need to clearly understand strategic goals and prospects of a particular company and have to be confident that their rights will not be violated, which cannot be achieved without improving the existing corporate governance practices.

In view of the foregoing, those concerned with corporate governance issues both on the theoretical plane and in real-life practice have started paying greater attention to such matters as protection for shareholder rights at times of material corporate actions, the need for balanced and realistic development strategies to be adopted, the monitoring of their implementation, more productive inputs expected from the various committees established under boards of directors, efficient systems to manage risks and avert conflicts of interest, and incentive policies for top managers.

All this has made it objectively necessary to revise and update 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 has already commenced in the midst of the financial crisis with participation of representatives of business and expert communities.

At this stage of work, proposals were developed on new versions of individual chapters of the Code (on the board of directors, general shareholder meeting, 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, new laws were adopted which had material effect on corporate governance in Russia (the Federal Law "On the Central Depository", amendments to the Federal Laws "On Securities Market" and "On Joint Stock Companies"). The enactment of the above laws contributed greatly to the improvement of the situation relating to the protection of ownership rights to shares, information

disclosure by and transparency of Russian companies, 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, and due to this, the Code was evaluated and commented on by leading international experts in corporate governance,

The new version of the document was renamed to the Corporate Governance Code. Such change is not merely editorial and 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 so that their conduct would correspond to the existing international standards. The Corporate Governance Code is not only a document explaining the best standards of observing shareholder rights and facilitating their implementation in practice, it is also an efficient tool of making a company's management more efficient and ensuring its long-term sustainable growth.

This version of the Corporate Governance Code is aimed at:

- determining principles and approaches which would make Russian companies more attractive as investees for 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 recommendation on proper practices of fair treatment of shareholders, with the account of negative examples of prior violations of their rights;
- taking account of the existing practice of application of 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 work of the management bodies of joint stock companies and control over their activity.

The Corporate Governance Code focuses on:

- the rights of shareholders, including recommendations on use of electronic means for the purpose of participation in voting and receipt of meeting materials, as well as on protection of dividend rights of shareholders;
- organising efficient work of the board of directors, i.e. determining the approaches to reasonable and bona fide performance of duties by board members, determining the functions of the board of directors, and organisation of its work and that of its committees;
- clarification of requirements to board members, including those relating to their independence;
- recommendations on development of a remuneration system for members of management bodies 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 controls;
- recommendations on additional disclosure of material information about the company and entities controlled thereby 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) which enable one to protect the shareholder rights and ensure the equal treatment of shareholders.

## **INTRODUCTION**

"Corporate Governance" is a concept that covers a system of relationships between the executive bodies of a joint-stock company, its board of directors, its shareholders and other stakeholders. Corporate governance is a tool used to determine the objectives of the company and means to achieve the same, as well as to enable its shareholders and other stakeholders to efficiently monitor the company's activities.

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 to mitigate risks that investors cannot assess and are not willing to accept, where the need to manage such risks in the long term would inevitably decrease a company's investment 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 necessary 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 both from sources within the country and from foreign investors. One way to improve corporate governance is to introduce certain standards based on analysis of its best international and Russian practices.

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

Prerequisites for the development of this Code of Corporate Governance (hereinafter, the "Code") are as follows:

1. Russian legislation already reflects most generally accepted principles of corporate governance. However, its provisions implementation practices, including by the judiciary, and the traditions of corporate governance are still developing and are often not satisfactory.
2. Good corporate governance cannot be achieved only through legislation.

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

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

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

Many provisions of the law regulating, in particular, corporate governance, are based on ethical standards and customary business practices. An example are the rules of civil law, which establish the possibility, in the absence of applicable legislation, of acting on the basis of requirements of good faith, reasonableness and fairness - requirements to exercise civil rights reasonably and in good faith, as well as prohibitions against the exercise of civil rights solely with the intention of causing harm to another person, or of taking action with an unlawful purpose, or against other deliberately dishonest exercise of civil rights. Thus, the moral and ethical standards of reasonableness, fairness and integrity are part of the current law.

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

4. The Code 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 that the company complies with the requirements of law. It is recommended that, in its activities, a company should follow the provisions of the Code, including where the law sets lighter regulations or contains gaps. The Code has been developed in accordance with current Russian legislation. Provisions of the Code are based on international practices of corporate governance, on corporate governance principles developed by the Organisation for Economic 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 effective.

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 principles of sustainable development of a company and increasing long-term returns on investments in its share capital. To this end, the company should determine its mission and corporate values which will become a tool 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 the best corporate governance practices, i.e.



corporate governance principles. The second part of the Code contains recommendations setting out methods and mechanisms of practical implementation of the Code's principles to be used as a tool for implementing the best corporate governance practices by a company. These recommendations should form a basis for developing corporate governance policies and practices.

Principles 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, or, if applicable, on reasons of their failure to comply with any of them.

Application of the provisions of this Code is equally important for companies with a large number of shareholders. However, these principles can be applied, as appropriate, by other legal entities as well.

## **PART A. PRINCIPLES OF CORPORATE GOVERNANCE**

### **I. SHAREHOLDER RIGHTS AND EQUALITY OF CONDITIONS FOR SHAREHOLDERS EXERCISING THEIR RIGHTS**

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

*1.1.1. The company should create most favourable conditions for its shareholders enabling them to participate in the general meeting and develop informed positions on issues on its agenda, as well as provide them with the opportunity to coordinate their actions and express their opinions on issues being discussed.*

*1.1.2. Procedures for notification of the general meeting and provision of materials for it should enable the shareholders to get properly prepared for participation therein.*

*1.1.3. During the preparation for and holding of the general meeting, the shareholders should be able to freely and timely receive information about the meeting and its materials, to pose questions to members of the company's executive bodies and board of directors, and to communicate with each other.*

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

*1.1.5. Each shareholder should be able to freely exercise his right to vote in a straightforward and most convenient way.*

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

**1.2. Shareholders should have equal and fair opportunities to participate in the profits of the company by means of receiving dividends.**

*1.2.1. The company should develop and put in place a transparent and clear mechanism for determining the amount of dividends and their payment.*

*1.2.2. The company should not make a decision on the payment of dividends, if such decision, without formally violating limits set by law, is unjustified from the economic point of view and might lead to the formation of false assumptions about the company's activity.*

*1.2.3. The company should not allow deterioration of dividend rights of its existing shareholders.*

*1.2.4. The company should strive to rule out any ways through which its shareholders can obtain any profit or gain at the company's expense other than dividends and distributions of its liquidation value.*

**1.3. The system and practices of corporate governance should 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 should create conditions which would enable its governing bodies and controlling persons to treat each shareholder fairly, in particular, which would rule out the possibility of any abuse of minority shareholders by major shareholders.*

*1.3.2. The company should not perform any acts which will or might result in artificial reallocation of corporate control therein.*

**1.4. The shareholders should be provided with reliable and efficient means of recording their rights in shares as well as with the opportunity to freely dispose of such shares in a non-onerous manner.**

## **II. BOARD OF DIRECTORS OF THE COMPANY**

**2.1. The board of directors shall be in charge of strategic management of the company, determine major principles of and approaches to creation of a risk management and internal control system within the company, monitor the activity of the company's executive bodies, and carry out other key functions.**

*2.1.1. The board of directors should be responsible for decisions to appoint and remove [members] of executive bodies, including in connection with their failure to properly perform their duties. The board of directors should also procure that the company's executive bodies act in accordance with an approved development strategy and main business goals of the company.*

*2.1.2. The board of directors should establish basic long-term targets of the company's activity, evaluate and approve its key performance indicators and principal business goals, as well as evaluate and approve its strategy and business plans in respect of its principal areas of operations.*

*2.1.3. The board of directors should determine principles of and approaches to creation of the risk management and internal control system in the company,*

*2.1.4. The board of directors should determine the company's policy on remuneration due to and/or reimbursement of costs incurred by its board members, members of its executive bodies and other key managers.*

2.1.5. *The board of directors should play a key role in prevention, detection and resolution of internal conflicts between the company's bodies, shareholders and employees.*

2.1.6. *The board of directors should play a key role in procuring 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 should monitor the company's corporate governance practices and play a key role in its material corporate events.*

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

2.2.1. *Information about the board of directors' work should be disclosed and provided to the shareholders.*

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

## **2.3. The board of directors should be an efficient and professional governing body of the company which is able to make objective and independent judgements and pass resolutions in the best interests of the company and its shareholders.**

2.3.1. *Only persons with impeccable business and personal reputation should be elected to the board of directors; such persons should also have knowledge, skills, and experience necessary to make decisions that fall within the jurisdiction of the board of directors and to perform its functions efficiently.*

2.3.2. *Board members should be elected pursuant to a transparent procedure enabling the shareholders to obtain information about respective candidates sufficient for them to get an idea of the candidates' personal and professional qualities.*

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

2.3.4. *The membership of the board of directors of the company must enable the board to organize its activities in a most efficient way, in particular, to create committees of the board of directors, as well as to enable substantial minority shareholders of the company to elect a candidate to the board of directors for whom they would vote.*

## **2.4. The board of directors should include a sufficient number of independent directors.**

2.4.1. *An independent director should mean any person who has required professional skills and expertise and is sufficiently able to have his/her own position and make objective and bona fide judgments, free from the influence of the company's executive bodies, any individual group of its shareholders or other stakeholders. It should be noted that, under normal circumstances, a candidate (or an elected director) may not be deemed to be independent, if*

*he/she is associated with the company, any of its substantial shareholders, material trading partners or competitors, or the government.*

*2.4.2. It is recommended to evaluate whether candidates nominated to the board of directors meet the independence criteria as well as to review, on a regular basis, whether or not independent board members meet the independence criteria. When carrying out such evaluation, substance should take precedence over form.*

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

*2.4.4. Independent directors should play a key role in prevention of internal conflicts in the company and performance by the latter of material corporate actions.*

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

*2.5.1. It is recommended to either elect an independent director to the position of the chairman of the board of directors or identify the senior independent director among the company's independent directors who would coordinate work of the independent directors and liaise with the chairman of the board of directors.*

*2.5.2. The board chairman should ensure that board meetings are held in a constructive atmosphere and that any items on the meeting agenda are discussed freely. The chairman should also monitor fulfilment of decisions made by the board of directors.*

*2.5.3. The chairman of the board of directors should take any and all measures as may be required to provide the board members in a timely fashion with information required to make decisions on issues on the agenda.*

**2.6. Board members must act reasonably and in good faith in the best interests of the company and its shareholders, being sufficiently informed, with due care and diligence.**

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

*2.6.2. Rights and duties of board members should be clearly stated and documented in the company's internal documents.*

*2.6.3. Board members should have sufficient time to perform their duties.*

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

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

2.7.1. *It is recommended to hold meetings of the board of directors as needed, with due account of the company's scope of activities and its then current goals.*

2.7.2. *It is recommended to develop a procedure for preparing for and holding meetings of the board of directors and set it out in the company's internal documents. The above procedure should enable the shareholders to get prepared properly for such meetings.*

2.7.3. *The form of a meeting of the board of directors should be determined with due account of importance of issues on the agenda of the meeting. Most important issues should be decided at the meetings held in person.*

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

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

2.8.1. *For the purpose of preliminary consideration of any matters of control over the company's financial and business activities, it is recommended to form an audit committee comprised of independent directors.*

2.8.2. *For the purpose of preliminary consideration of any matters of development of efficient and transparent remuneration practices, it is recommended to form a remuneration committee comprised of independent directors and chaired by an independent director who should not concurrently be the board chairman.*

2.8.3. *For the purpose of preliminary consideration of any matters relating to human resources planning (making plans regarding successor directors), professional composition and efficiency of the board of directors, it is recommended to form a nominating committee (a committee on nominations, appointments and human resources) with a majority of its members being independent directors.*

2.8.4. *Taking account of its scope of activities and levels of related risks, the company should form other committees of its board of directors, in particular, a strategy committee, a corporate governance committee, an ethics committee, a risk management committee, a budget committee or a committee on health, security and environment, etc.*

2.8.5. *The composition of the committees should be determined in such a way that it would allow a comprehensive discussion of issues being considered on a preliminary basis with due account of differing opinions.*

2.8.6. *The chairmen of the committees should inform the board of directors and its chairman of the work of their committees on a regular basis.*

## **2.9. The board of directors should procure evaluation of quality of its work and that of its committees and board members.**

2.9.1. *Evaluation of quality of the board of directors' work should be aimed at determining how efficiently the board of directors, its committees and board members work and*

*whether their work meets the company's needs, as well as at making their work more intensive and identifying areas of improvement.*

*2.9.2 Quality of work of the board of directors, its committees and board members should be evaluated on a regular basis, at least once a year. To carry out an independent evaluation of the quality of the board of directors' work, it is recommended to retain a third party entity (consultant) on a regular basis, at least once every three years.*

### **III. CORPORATE SECRETARY OF THE COMPANY**

**3.1. The company's corporate secretary shall be responsible for efficient interaction with its shareholders, coordination of the company's actions designed to protect the rights and interests of its shareholders, and support of efficient work of its board of directors.**

*3.1.1. The corporate secretary should have knowledge, experience, and qualifications sufficient for performance of his/her duties, as well as an impeccable reputation and should enjoy the trust of the shareholders.*

*3.1.2. The corporate secretary should be sufficiently independent of the company's executive bodies and be vested with powers and resources required to perform his/her tasks.*

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

**4.1. The level of remuneration paid by the company should be sufficient to enable it to attract, motivate, and retain persons having required skills and qualifications. Remuneration due to board members, the executive bodies, and other key managers of the company should be paid in accordance with a remuneration policy approved by the company.**

*4.1.1. It is recommended that the level of remuneration paid by the company to its board members, executive bodies, and other key managers should be sufficient to motivate them to work efficiently and enable the company to attract and retain knowledgeable, skilled, and duly qualified persons. The company should avoid setting the level of remuneration any higher than necessary, as well as an excessively large gap between the level of remuneration of any of the above persons and that of the company's employees.*

4.1.2. *The company's remuneration policy should be developed by its remuneration committee and approved by the board of directors. With the help of its remuneration committee, the board of directors should monitor implementation of and compliance with the remuneration policy by the company and, should this be necessary, review and amend the same.*

4.1.3. *The company's remuneration policy should provide for transparent mechanisms to be used to determine the amount of remuneration due to members of the board of directors, the executive bodies, and other key managers of the company, as well as to regulate any and all types of payments, benefits, and privileges provided to any of the above persons.*

4.1.4. *The company is recommended to develop a policy on reimbursement of expenses which would contain a list of reimbursable expenses and specify service levels provided to members of the board of directors, the executive bodies, and other key managers of the company. Such policy can form part of the company's policy on compensations.*

#### **4.2. The system of remuneration of board members should ensure harmonisation of financial interests of the directors with long-term financial interests of the shareholders.**

4.2.1. *A fixed annual fee shall be a preferred form of monetary remuneration of the board members. It is not advisable to pay a fee for participation in individual meetings of the board of directors or its committees. It is not advisable to use any form of short-term incentives or additional financial incentives in respect of board members.*

4.2.2. *Long-term ownership of shares in the company contributes most to aligning financial interests of board members with long-term interests of the company's shareholders. However, it is not recommended to make the right to dispose of shares dependent on the achievement by the company of certain performance results; nor should board members take part in the company's option plans.*

4.2.3. *It is not recommended to provide for any additional allowance or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances.*

#### **4.3. The system of remuneration due to the executive bodies and other key managers of the company should provide that their remuneration is dependent on the company's performance results and their personal contributions to the achievement thereof.**

4.3.1. *Remuneration due to the executive bodies and other key managers of the company should be set in such a way as to procure a reasonable and justified ratio between its fixed portion and its variable portion that is dependent on the company's performance results and employees' personal (individual) contributions to the achievement thereof.*

4.3.2. *Companies whose shares are admitted to trading at organised markets are recommended to put in place a long-term incentive programme for the company's executive bodies and other key managers involving the company's shares (or options or other derivative financial instruments the underlying assets for which are the company's shares).*



4.3.3. *The amount of severance pay (so-called "golden parachute") payable by the company in the event of early dismissal of an executive body or other key manager at the initiative of the company, provided that there have been no bad faith actions on the part of such person, should not exceed two times the fixed portion of his/her annual remuneration.*

## **V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM**

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

*5.1.1. The board of directors should determine the principles of and approaches to creation of the risk management and internal control system in the company.*

*5.1.2. The company's executive bodies should ensure the establishment and continuing operation of the efficient risk management and internal control system in the company.*

*5.1.3. The company's risk management and internal control system should enable one to obtain an objective, fair and clear view of the current condition and prospects of the company, integrity and transparency of its accounts and reports, and reasonableness and acceptability of risks being assumed by the company.*

*5.1.4. The board of directors is recommended to take required and sufficient measures to procure that the existing risk management and internal control system of the company is consistent with the principles of and approaches to its creation as set forth by the board of directors and that it operates efficiently.*

**5.2 To independently evaluate, on a regular basis, reliability and efficiency of the risk management and internal control system and corporate governance practices, the company should arrange for internal audits.**

*5.2.1. It is recommended that internal audits be carried out by a separate structural division (internal audit department) to be created by the company or through retaining an independent third-party entity. To ensure the independence of the internal audit department, it should have separate lines of functional and administrative reporting. Functionally, the internal audit department should report to the board of directors, while from the administrative standpoint, it should report directly to the company's one-person executive body.*

*5.2.2. When carrying out an internal audit, it is recommended to evaluate efficiency of the internal control system and the risk management system, as well as to evaluate corporate governance and apply generally accepted standards of internal auditing.*

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

**6.1. The company and its activities should be transparent to its shareholders, investors, and other stakeholders.**

*6.1.1. The company should develop and implement an information policy enabling the company to efficiently exchange information with its shareholders, investors, and other stakeholders.*

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

**6.2. The company should disclose, on a timely basis, full, updated and reliable information about itself so as to enable its shareholders and investors to make informed decisions.**

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

*6.2.2. The company is advised against using a formalistic approach to information disclosure; it should disclose material information on its activities, even if disclosure of such information is not required by law.*

*6.2.3 The company's annual report, as one of the most important tools of its information exchange with its shareholders and other stakeholders, should contain information enabling one to evaluate the company's performance results for the year.*

**6.3. The company should 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 should not be unreasonably burdensome.*

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

## VII. MATERIAL CORPORATE ACTIONS

**7.1. Any 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") should be taken on fair terms and conditions ensuring that the rights and interests of the shareholders as well as other stakeholders are observed.**

*7.1.1. Material corporate actions shall be deemed to include reorganisation of the company, acquisition of 30 or more percent of its voting shares (takeover), entering by the company into any material transactions, increasing or decreasing its share capital, listing and delisting of its shares, as well as other actions which might result in material changes in rights of its shareholders or violation of their interests. It is recommended to include in the company's articles of association a list of (criteria for identifying) transactions or other actions falling within the category of material corporate actions and provide therein that decisions on any such actions should fall within the jurisdiction of the company's board of directors.*

*7.1.2. The board of directors should play a key role in passing resolutions or making recommendations relating to material corporate actions; for that purpose, it should rely on opinions of the company's independent directors.*

*7.1.3. When taking any material corporate actions which would affect rights or legitimate interests of the company's shareholders, equal terms and conditions should be ensured for all of the shareholders; if statutory mechanisms designed to protect the shareholder rights prove to be insufficient for that purpose, additional measures should be taken with a view to protecting the rights and legitimate interests of the company's shareholders. In such instances, the company should not only seek to comply with the formal requirements of law but should also be guided by the principles of corporate governance set out in this Code.*

**7.2. The company should have in place such a procedure for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and that would also guarantee that the shareholder rights are observed and duly protected in the course of taking such actions.**

*7.2.1. When disclosing information about material corporate actions, it is recommended to give explanations concerning reasons for, conditions and consequences of such actions.*

*7.2.2. Rules and procedures in relation to material corporate actions taken by the company should be set out in its internal documents.*

## **PART B. RECOMMENDATIONS ON PRINCIPLES OF CORPORATE GOVERNANCE**

### **I. SHAREHOLDER RIGHTS AND EQUALITY OF CONDITIONS FOR SHAREHOLDERS EXERCISING THEIR RIGHTS**

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

*1.1.1. The company should create most favourable conditions for its shareholders enabling them to participate in the general meeting and develop informed positions on issues on its agenda, as well as provide them with the opportunity to coordinate their actions and express their opinions on issues being discussed.*

1. The procedure for convening, preparing and holding the general meeting should be regulated by the company's internal document (a Regulation on General Shareholders Meeting) to be approved by the general meeting.

*1.1.2. Procedures for notification of the general meeting and provision of materials for it should enable the shareholders to get properly prepared for participation therein.*

2. As a general rule, notice of the general meeting shall be made, and its materials shall be provided, no later than 20 days before the scheduled date of the meeting. Taking into account the importance of timely notification of shareholders of a forthcoming general meeting and provision the shareholders with its materials well in advance of the general meeting, the company should inform about such meeting and make related materials available no less than 30 days before the date of the meeting, unless the law provides for a longer period of time.

3. Information about the date of drawing up a list of persons entitled to participate in a general meeting should be disclosed at least seven days prior to the date of the meeting, so that every interested person could participate in the general meeting while holding their optimal shareholdings.

4. The notice of the general meeting should contain all information required for the shareholders to make a decision regarding participation in the general meeting as well as the method of their participation.

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

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

6. In addition to posting a notice (announcement) of a forthcoming general meeting on its website on the Internet, the company should publish related materials on its website along with information about getting to the venue of the general meeting, an approximate form of power of attorney that a shareholder may issue to his representative to attend the general meeting, and information on how to certify such power of attorney.

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

To ensure equal treatment of all its shareholders, including foreign, the company should provide information about a forthcoming meeting not only in Russian but also in a foreign language that is commonly used at the financial market.

8. Information about who has proposed each item or nominated a particular candidate to a management body or other body of the company is of great importance for shareholders wishing to form an objective opinion on an agenda item. This information enables the shareholder to form a more accurate idea of the purpose of bringing the matter to the general meeting and, accordingly, on optimal ways to resolve it. When preparing the general meeting agenda, it is recommended to specify who proposed each of the listed issues and, in respect to candidates nominated to any of the company's bodies, who nominated them.

*1.1.3. During the preparation for and holding of the general meeting, the shareholders should be able to freely and timely receive information about the meeting and its materials, to pose questions to members of the company's executive bodies and board of directors, and to communicate with each other.*

9. During the preparation and holding of the general meeting, shareholders shall have the possibility to receive unmediated and timely information about the meeting and its materials, to pose questions to members of the company's executive bodies and board of directors, and to communicate freely with each other. During the period of preparation for the meeting, the company shall establish necessary organisational and technical conditions to ensure that shareholders may pose questions to members of the company's executive bodies and board of directors, as well as to publicly express their opinions on the meeting's agenda items. To this

end, a company with a large number of shareholders is recommended to support a special telephone line (hotline) for communication with shareholders, to establish a special email address, and to provide a forum for discussion of the meeting agenda on its website.

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

- 1) sufficient details of proposed external auditors<sup>2</sup> which enable one to get an idea of their professional qualities and independence, including the name of its self-regulating organisation, description of procedures which are used when selecting external auditors and ensure their independence and impartiality, information on proposed remuneration to be paid to external auditors for their auditing and non-auditing services (including information on fees and other costs of retaining the auditor), and other material terms and conditions of contracts to be entered into with the company's external auditors;
- 2) [materials setting out] positions of the board of directors regarding the general meeting's agenda, as well as dissenting opinions of board members on each item therein. Such materials are recommended for inclusion into the minutes of a meeting of the board of directors 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 completed by an independent appraiser, or other information enabling a shareholder to form an opinion on the real value of such assets and its dynamics;
- 4) the rationale and explanation of potential consequences for the company and its shareholders of decisions to increase or reduce its share capital or approve a major transaction or interested party transaction;
- 5) when making changes to the company's articles of association and internal documents, tables comparing amendments to be made with the existing version, as well as the rationale and explanation of potential consequences for the company and its shareholders of making such amendments;
- 6) when approving an interested party transaction, a list of persons deemed to be interested in the transaction, including the grounds on which such a person is considered to be so interested.
- 7) sufficient information which enable one to get an idea of personal and professional qualities of candidates nominated to the positions of board members and members of any other bodies of the company, including information about their experience and professional biographies, as well as whether they meet the statutory requirements, if any, to members of the company bodies. Where transfer of powers of the one-person

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<sup>2</sup> That is, the company's auditor expressing his opinion on reliability of its annual accounting (financial) statements and/or its annual consolidated financial statements.

- executive body to a management company or manager is considered, details on such management company or manager, including information on its/his affiliation with any persons controlling the company should be disclosed;
- 8) the rationale of proposed allocation of the company's profit and an opinion on whether or not such allocation is consistent with the company's dividend policy, including in relation to profit proposed to be paid as dividends and applied towards the company's own needs, together with explanatory notes and economic rationale of allocating a certain portion of the profit to be used for the company's own needs;
  - 9) details of the procedure for calculating the amount of dividends on preferred shares in respect of which the company's articles of association establishes the procedure for their determination;
  - 10) information on corporate actions, if any, 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 received income from the company other than by means of dividend payments or payments of the company's liquidation value.

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

12. The opportunity to review the list of persons entitled to attend the general meeting enables shareholders to evaluate the balance of power at the forthcoming meeting, to jointly nominate candidates for election to company bodies, to discuss and negotiate possible voting options and to appoint a representative to attend the general meeting. The company is recommended to provide shareholders entitled to review the list with the opportunity to review it starting from the date when the company receives it.

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

13. The company is recommended to provide, in its articles of association, for a period during which its shareholders are allowed to propose items to be included in the agenda of its annual general meeting equalling 60 days from the end of a respective calendar year, rather than 30 days as provided for by law.

14. If there are typos and other insignificant flaws in shareholder proposals, it is not recommended that the company refuse to include these proposals on the agenda or refuse the

proposed candidate to the list of nominees for election as long as the contents of the proposal as a whole are sufficient to determine the will of the shareholder and to confirm his right to submit the proposal. If there are significant flaws, the company is recommended to report them in a timely manner to the shareholder so that it is possible to correct them before the board approves the agenda and the list of candidates to respective bodies of the company.

15. Provided that it has required technical means, the company should seek to put in place a shareholder-friendly procedure for sending to 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 allow electronic information exchange.

*1.1.5. Each shareholder should be able to freely exercise his right to vote in a straightforward and most convenient way.*

16. A company which has fewer than 1,000 shareholders owning voting shares therein is recommended, with a view to creating most favourable conditions for participation of its shareholders in its general meetings, to include in its article of association a provision whereby voting ballots must be sent to the shareholders and the shareholders shall have the right to participate in a general meeting by filling out and sending such voting ballots to the company.

17. Registration procedures for the general meeting adopted by the company shall not create barriers to participation of any of its shareholders and shall be defined in detail in the company's internal documents. Internal documents regulating preparation for and holding the general meetings should contain an exhaustive list of documents to be submitted to the counting commission 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 participate in the general meeting to register.

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

20. The company should put in place systems allowing its shareholders to vote by electronic means, provided that it has required technical means to do so. In particular, in order to



create most favourable conditions for the participation of its shareholders in general meetings, the company is recommended to allow its shareholders to complete an electronic ballot, for example, through "My Account" section on the company's website, provided that adequate security measures are in place and that it is possible to reliably identify (confirm the identity of) any person taking part in the meeting.

21. The company should conclude its general meeting within one day, in order to avoid extra costs that can be incurred by its shareholders. If, for objective reasons, it is not possible to conclude the general meeting in one day, the company should conclude its meeting, at least, on the following day.

Where the articles of association provide that general meetings are to be held in a place other than the location of the company such place should be chosen/designated with due account of the interests of the shareholders and their ability to take part in such meetings in person.

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

23. To rule out any abuse, the company should include in its internal documents a provision whereby a person filling out a voting ballot may, until the end of the general meeting, request that a copy of the ballot filled out thereby be certified by the company's counting commission (or representatives of the registrar who carries out the functions of such counting commission). For that purpose, the company should provide any person taking part in the general meeting with the opportunity to make, at such person's expense, a copy of his/her filled out voting ballot.

24. Access to the decisions of the general meeting shall be open to all shareholders. It is, therefore, recommended to provide, in the company's articles of association and internal documents, that the company is obliged to post 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 should provide equal opportunity to 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 should 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 the agenda should be provided and there should be sufficient time to discuss these issues.

26. In order to enhance shareholder participation in the monitoring of the financial and economic activities of the company, shareholders must be given the opportunity to put questions

to the one person executive body, the chief accountant,<sup>3</sup> members of the internal audit commission, the chairman or other members of the audit committee of the board of directors, and the external auditors of the company. Shareholders must be given the opportunity to ask questions regarding their submitted opinions and, accordingly, to receive answers to their questions. Therefore, the company should invite such persons to participate in the general meeting.

27. The company should invite candidates nominated to its board of directors and internal audit commission to attend a respective general meeting (and such candidates are recommended to attend the same) so that shareholders would be able to ask them questions and make their judgements about such candidates.

28. Meeting participants should be able to freely communicate and consult with each other on issues relating to their voting at the general meeting, without violating the general meeting procedures.

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

## **1.2. Shareholders should have equal and fair opportunities to participate in the profits of the company by means of receiving dividends.**

*1.2.1 The company should develop and put in place a transparent and clear mechanism for determining the amount of dividends and their payment.*

30. The company should adopt a dividend policy, which should be set out in its Regulation on Dividend Policy. This internal document of the company shall be drafted and approved by the board of directors. The company should set its dividend policy in the mid-term and in the long-term. If there is a change in its dividend policy, the company should explain the reasons and rationale therefor to its shareholders in every detail. If such a change is not caused by the company's development needs or the then existing overall economic situation, for example, if such change occurs due to a change of corporate control over the company, this cannot be viewed as a good corporate practice.

31. To ensure transparency of the mechanism for determining the amount of dividends and their payment, it is recommended to set forth rules in the Regulation on Dividend Policy

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<sup>3</sup> If the company's accounts are maintained by any person other than its chief accountant, the company should enable [its shareholders] to put questions to its respective official who is in charge of maintaining its accounts or, if such accounts are maintained by an entity or individual retained by the company under a contract, to an official of such entity or to the individual in question.

governing the procedure for determining a portion of the company's net profit that will be allocated for the payment of dividends, the conditions under which dividends are declared, the procedure for calculating the amount of dividends on any shares on which the dividend amount is not set in the company's articles of association, and the minimum amount of dividends payable on shares of different classes (types).

32. Companies preparing consolidated financial statements are recommend to put in place a procedure for determining the minimum share of consolidated net profit to be allocated for the payment of dividends, subject to statutory restrictions on declaration and payment of dividends in respect of a particular company.

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

34. The company should not include in its articles of association any provision that might mislead investors regarding the procedure for determining the amount of dividends payable on preferred shares and, therefore, might create uncertainty as to whether such preferred shares are voting shares.

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

36. The procedure for dividend payments should help shareholders implement their rights to receive dividends in a most efficient way.

37. The company should pay dividends only in cash, since their payment in the form of other property makes assessment of the real 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. Where the company makes a decision to pay dividends, it should explain to the shareholders that it is important to timely inform the company of any change in their data required for dividend payments (bank account details, mailing address, etc.) as well as to explain related consequences and risks of one's failure to timely inform the company of such change.

*1.2.2. The company should not make a decision on the payment of dividends, if such decision, without formally violating limits set by law, is unjustified from the economic point of view and might lead to the formation of false assumptions about the company's activity.*

39. These might be, for example, cases where dividends are declared on ordinary shares and/or preference shares if the company has no profit or has insufficient profit for a particular reporting year or if its cash flows (or available funds) are insufficient or if the company failed to

implement its investment programme or exceeded a target value of its debts set forth in its financial and business plan (budget).

*1.2.3. The company should not allow deterioration of dividend rights of its existing shareholders.*

40. However, in practice statutory means and ways to protect the dividend rights of shareholders are not always sufficient. In this regard, when taking corporate actions, the company and its controlling persons should seek to ensure the preservation of dividend rights and shareholdings held by existing shareholders (including by providing the existing shareholders with efficient and non-discriminatory mechanisms of preservation of the same). For example, if dividend rights of the holders of preference shares depend on the [total] number of the company's common shares, then a change in such number should be accompanied by a respective change of rights of the holders of the company's preference shares.

*1.2.4. The company should strive to rule out any ways through which its shareholders can obtain any profit or gain at the company's expense other than dividends and distributions of its liquidation value.*

41. In accordance with proper corporate governance practices, shareholders should be able to receive profit (income) at the expense of the company solely by means of receiving dividends and distributions of its liquidation value. The company should take any and all measures to prevent its controlling persons from deriving a profit (income) from the company in other ways, for example, through transfer pricing, internal loans substituting dividends or unjustified rendering of services by a controlling person at inflated prices, or by any other similar means.

**1.3. The system and practices of corporate governance should 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 should create conditions which would enable its governing bodies and controlling persons to treat each shareholder fairly, in particular, which would rule out the possibility of any abuse of minority shareholders by major shareholders.*

42. Minority shareholders should be protected from abuse by controlling shareholders acting directly or indirectly and should be provided with effective remedies in case of violation of their rights.

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

*1.3.2. The company should not perform any acts which will or might result in artificial reallocation of corporate control therein.*

44. The company should take required and sufficient measures to prevent any legal entity controlled thereby from taking part in a vote when a resolution is passed by the general meeting of the company.

45. The legislation provides for a ban on participation in the management of the company using treasury shares (i.e. shares owned by the company itself), because, through voting such shares, the company's executive bodies can thus gain control over the company, at the expense of the company, that is, effectively, at the expense of its shareholders. This would contradict the very essence 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 shares"), international best practice presumes that voting such quasi-treasury shares at a general meeting of the company is inadmissible.

47. The company should place preferred shares with the same nominal value as the nominal value of its ordinary shares. Certain rights provided to a shareholder and evidenced by a preferred or ordinary share owned thereby is conditional on payment by such shareholder for a respective share in the company's share capital. If, in the event that a company places preferred shares whose nominal value differs from that of its ordinary shares, a shareholder acquires a greater scope of rights (or more votes) without contributing property of equivalent value to the company and if preferred shares become entitled to vote, this cannot be viewed as a good corporate practice.

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

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

50. Non-payment of dividends on preferred shares, where there exist sufficient sources for their payment, which grants owners of preferred shares the ability to vote on all issues on the agenda of the general meeting, cannot be considered good corporate practice.

51. Using any financial market instruments, for example, entering into repo or loan agreements in respect of treasury or quasi-treasury shares solely with a view to “transferring” votes on such shares cannot be considered good corporate practice.

52. Similarly, making a decision to pay dividends on preferred shares where the company’s financial means are limited, in order to prevent the holders of the preferred shares from participating in the company’s general meeting and voting on all issues falling within its jurisdiction cannot be considered good corporate practice.

**1.4. The shareholders should be provided with reliable and efficient means of recording their rights in shares as well as with the opportunity to freely dispose of such shares in a non-onerous manner.**

53. Protection of a shareholder’s ownership rights and the guarantee of freedom to dispose of shares owned by such shareholder must be achieved through:

- selection by the company of a reputable registrar that has well established and reliable technologies enabling it to record, in a most efficient way, ownership rights of the company’s shareholders and help them exercise their rights; and
- taking actions, together with the registrar, aimed at updating details of the shareholders contained in the shareholder register.

54. Public floating of the company’s shares and maintaining a liquid market therein would enable its shareholders to sell their shares promptly and at a fair price.

## **II. BOARD OF DIRECTORS OF THE COMPANY**

**2.1 The board of directors shall be in charge of strategic management of the company, determine major principles of and approaches to creation of a risk management and internal control system within the company, monitor the activity of the company’s executive bodies, and carry out other key functions.**

*2.1.1 The board of directors should be responsible for decisions to appoint and remove [members] of executive bodies, including in connection with their failure to properly perform their duties. The board of directors should also procure that the company’s executive bodies act in accordance with an approved development strategy and main business goals of the company.*

55. One of the most important functions of the board of directors is to form efficient executive bodies of the company and exercise efficient control over their work. The board

should be responsible for making timely and informed staffing decisions regarding the company's executive bodies, including decisions to dismiss any member thereof.

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

57. To ensure that such control is efficient, the company's articles of association should include provisions whereby matters relating to the formation of the company's executive bodies, termination of their powers, approval of the terms and conditions of contracts to be entered with members of the executive bodies of the company, including the terms of their remuneration and other payments due to them, shall fall within the jurisdiction of the board of directors.

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

59. In accordance with its existing criteria and indicators, the board of directors should regularly monitor the implementation of the company's strategy and business plans by its executive bodies.

60. The board of directors is recommended to periodically hear reports of the one-person executive body and members of the collective executive body on the implementation of the strategy, with particular attention to conformance of the company's performance to target indicators set forth by the company's strategy. The board of directors should decide how often such reports should be made based on the company's scope of activity, strategy implementation milestones (as provided for in the company's strategy), and the need to make adjustments thereto from time to time.

*2.1.2. The board of directors should establish basic long-term targets of the company's activity, evaluate and approve its key performance indicators and principal business goals, as well as evaluate and approve its strategy and business plans in respect of its principal areas of operations.*

61. The board of directors should procure that respective resources are allocated in the course of developing the company's strategy for that purpose. It should also determine the format in which the description of the strategy must be prepared, discuss and provide an objective assessment of the strategy development process, as well as evaluate and approve the same.

62. When evaluating the company's strategy, the board of directors should, taking account of the company's strengths and weaknesses as well as of the then existing and projected economic and financial conditions of its operations, decide whether such strategy is capable of being implemented.

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

64. The company's strategy and business plans should contain clear criteria the majority of which should be quantifiable and should also set interim target indicators. Such criteria should enable the board of directors to determine whether the company's economic and financial performance corresponds to its target indicators, the efficiency of practical measures aimed at implementing its strategy and the extent to which the same has been implemented. In accordance with such criteria and indicators, the board of directors should regularly monitor the implementation of the company's strategy and business plans.

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

66. If a company is a controlling person [vis-à-vis other companies], it is recommended to determine what powers the board of directors of the controlling company will have in relation to determining development strategies and evaluating performance of respective controlled companies.

67. It is recommended that the board of directors hold a special meeting at least once a year to discuss the issues of strategy, progress of its implementation and updates thereto. The regularity of such meetings should correspond to the scope and nature of the company's business, as well as risks assumed thereby, in particular, in connection with any changes in the economic and legal environment in which the company operates.

*2.1.3 The board of directors should determine principles of and approaches to creation of the risk management and internal control system in the company,*

68. It is recommended that the articles of association of the company should provide for the board of directors' powers to approve a general policy in the area of risk management and internal control.



69. The board of directors is recommended to assess both financial and non-financial risks faced by the company, including operational, social, ethical, environmental, and other non-financial risks and determine a level of risk acceptable to the company.

70. When approving the risk management policies, the board of directors should seek to achieve an optimal balance between risks and return to the company as a whole, subject to the requirements of laws, its internal documents, and articles of association. In particular, such policies should provide that, when performing transactions and operations involving a high risk of loss of capital and investment, it shall be necessary to proceed based on a reasonable level of risk and conformance of the level of the risk to be assumed to the maximum levels set forth by the risk management policy.

71. The company's employee incentives system should also be developed with due account of its general risk management policy.

72. The board of director should arrange for carrying out a review and evaluation of the risk management and internal control system at least once a year. Such analysis and evaluation may be based on data in reports received regularly from the executive bodies of the company, its internal audit department and external auditors, as well as on the board of directors' own observations, and information received from other sources. The regularity of such review and evaluation of the risk management and internal control system's work should be determined based on the scope and nature of the company's business, risks assumed thereby, and changes, if any, in organisation of its operations. The results of such review and evaluation should be discussed at a meeting of the company's board of directors.

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

*2.1.4 The board of directors should determine the company's policy on remuneration due to and/or reimbursement of costs incurred by its board members, members of its executive bodies and other key managers.*

74. The company should develop and put in place a policy on remuneration due to and/or reimbursement of costs incurred by its board members, members of the executive bodies of the company and other key managers.<sup>4</sup>

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<sup>4</sup> For the purpose of this Code, key managers shall mean the company's one-person executive body and members of its collective executive body, and those of its employees who hold important positions within the structure of the company's executive management and directly influence the efficiency of financial and business operations of the company. A list of persons (positions) falling in the category of key managers shall be drawn up by the company's board of directors.

75. The policy on remuneration due to and/or reimbursement of costs incurred by its board members, members of the executive bodies of the company and other key managers must comply with the principles of transparency and accountability and take account of the roles of the above persons in the company's activities.

*2.1.5 The board of directors should play a key role in prevention, detection and resolution of internal conflicts between the company's bodies, shareholders and employees.*

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

77. The board of directors should play a key role in identifying and settling such conflicts and, thus, enable all the shareholders to get efficient protection in case of violation of their rights.

78. If, at any stage, a conflict affects or might affect the company's executive bodies, it should be referred to the board of directors or its corporate governance committee. Board members whose interests are or might be affected by the conflict should not participate in its resolution.

79. To prevent corporate conflicts from occurring, the company should create a system designed to identify its transactions which involve a conflict of interest (in particular, any transactions entered into for the personal benefit of its shareholders, members of the board of directors or other executive bodies or the company's employees). Such system requires procedures that ensure:

- 1) timely receipt by the company of updated information on persons associated<sup>5</sup> or affiliated with members of the board of directors, the company's one-person executive body, members of its [collective] executive body, other key managers and any conflict of interest involving any of the above persons (including information on their interest in the entering into a particular transaction); and
- 2) that decisions to enter into any transactions involving a conflict of interest are made (or that control over the terms and conditions of such transactions is exercised) by persons who have no conflict of interest and are not influenced by any persons who have a respective conflict of interest.

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<sup>5</sup> 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.

80. The company should ensure that the above procedures are complied with by the company's employees through the use of disciplinary measures, and that such compliance be taken into account when evaluating the performance of respective persons.

*2.1.6 The board of directors should play a key role in procuring 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 most important tool for establishing long-term relationships of trust with shareholders; it helps increase the value of the company, and helps it raise capital and maintain confidence in the company on the part of its stakeholders (partners, customers, suppliers, the public, and government agencies). In this regard, control over proper organisation and efficient operation of the system of information disclosure by the company and provision of information to its shareholders is one of the most important functions of the board of directors. To perform this function, the board of directors is recommended to approve the company's information policy which should provide for a reasonable balance between the company's openness and its commercial interests.

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

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

83. The board of directors should monitor the company's corporate governance practices, which involves analysing, on a regular basis, the compliance of the company's corporate governance system and its corporate values with its goals and challenges facing the company, as well as with the scope of its activities and risks assumed thereby.

84. Evaluation of corporate governance practices should be focused on division of powers and determination of responsibilities of each of the company's bodies and evaluation of performance thereby of respective functions and duties.

85. Upon the results of such evaluation, the board of directors should make proposals aimed at improving corporate governance practices and, if necessary, making required changes to the articles of association and internal documents of the company. It should also make respective staffing decisions, or, if such decisions fall within the jurisdiction of the company's executive bodies, to submit proposals regarding such decisions to the respective executive body.

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

*2.2.1. Information about the board of directors' work should be disclosed and provided to the shareholders.*

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

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

88. The company should disclose, in its annual reports, principal results of evaluation of performance of its board of directors and executive bodies.

89. If, during a reporting year, any decision was made on early termination of the powers of the company's executive bodies, the company should also disclose reasons therefor in its annual report.

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

90. Shareholders must be given the opportunity to pose questions to the chairman of the board of directors relating to any matters falling within the jurisdiction of the board, as well as to communicate their opinion (position) on such matters via "My account" section on the company's website, the corporate secretary, the office of the board chairman or using any other available and user-friendly means.

## **2.3. The board of directors should be an efficient and professional governing body of the company which is able to make objective and independent judgements and pass resolutions in the best interests of the company and its shareholders.**

*2.3.1. Only persons with impeccable business and personal reputation should be elected to the board of directors; such persons should also have knowledge, skills, and experience necessary to make decisions that fall within the jurisdiction of the board of directors and to perform its functions efficiently.*

91. Personal and professional qualities of a board member and his/her reputation should not give rise to any doubt as to whether he/she would act in the best interests of the company and its shareholders. In this regard, it is recommended that only persons with impeccable business

and personal reputation be elected to the board of directors; such persons should also have knowledge, skills, and experience necessary to make decisions that fall within the jurisdiction of the board of directors and to perform its functions efficiently.

92. If a board member has a conflict of interest, it is a valid reason to doubt as to whether he/she would act in the best interests of the company. In connection therewith, it is not recommended to elect to the board of directors any person who is a member of the executive bodies and/or an employee of a legal entity competing with the company.

93. The company and its controlling persons should strive to create an effective and professional board of directors as the management body which is able to make objective and independent judgements and in which issues within its jurisdiction are discussed, studied and efficiently decided in due time.

*2.3.2. Board members should be elected pursuant to a transparent procedure enabling the shareholders to obtain information about respective candidates sufficient for them to get an idea of the candidates' personal and professional qualities.*

94. The company should procure that its board members are elected through a transparent procedure that takes into account the diversity of views of its shareholders and ensures that the composition of the board of directors corresponds to statutory requirements, tasks facing the company and its corporate values. In accordance with good corporate governance practices, candidates nominated to the board of directors should be discussed by shareholders on a preliminary basis. Such discussion should be organised by the nominating committee of the board of directors.

95. Therefore, shareholders should be able to obtain information about the candidates to the company's board which should be sufficient to enable them to get an idea of such candidates' personal and professional qualities. In particular, immediately after approval of a list of such candidates, the company should disclose information about the person (group of persons) who has nominated a particular candidate, including information on the candidate's age and education, positions held by him/her during a period of at least the last five years, his/her position as of the time of his/her nomination, the nature of his/her relationship with company, his/her membership in boards of directors of other legal entities, as well as about his/her nomination to the board of directors or for election (appointment) to a position in other legal entities, information on his/her relationships with affiliates and major trading partners of the company, and any other information that might affect the candidate's ability to perform his/her respective duties, along with other information about him/her provided by the candidate. In addition, it should be stated whether or not a particular candidate meets the requirements to independent directors. If the candidate or the shareholder who has nominated him/her failed to provide all or part of the above information, the company should state so. In addition, it is recommended to use an Internet forum where agenda items are discussed, for the purpose of

collecting shareholders' opinions regarding the conformance of the candidates to the criteria of independence.

96. It should be required to obtain a candidate's written consent to be elected to the board of directors and work as a member of its committee (where such candidate is expected to participate in work of a committee(s) of the board of directors) as well as to state whether such consent has been obtained.

97. Information on candidates to the company's board of directors should be provided as part of materials made available in the course of preparation for and holding the general meeting of the company.

98. Minutes of the general meeting at which the company's board of directors is elected should include information on those elected board members who have been elected as independent directors.

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

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

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

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

*2.3.4 The membership of the board of directors of the company must enable the board to organize its activities in a most efficient way, in particular, to create committees of the board of directors, as well as to enable substantial minority shareholders of the company to elect a candidate to the board of directors for whom they would vote.*

## **2.4. The board of directors should include a sufficient number of independent directors.**

*2.4.1 An independent director should mean any person who has required professional skills and expertise and is sufficiently able to have his/her own position and make objective and bona fide judgments, free from the influence of the company's executive bodies, any individual group of its shareholders or other stakeholders. It should be noted that, under normal circumstances, a candidate (or an elected director) may not be deemed to be independent, if he/she is associated with the company, any of its substantial shareholders, material trading partners or competitors, or the government.*

101. In accordance with the best corporate governance practices, independent directors mean any persons who are sufficiently able to have their own positions and make objective and bona fide judgments, free from the influence of the company's executive bodies, any individual groups of its shareholders or other stakeholders and who have sufficient professional skills and expertise.

102. Although it is impossible to draw up an exhaustive list of all possible circumstances that could affect independence of a particular director, it is advisable to deem a person to be an independent director (or a candidate nominated for election as an independent director) if such person:

- 1) is not associated with the company;
- 2) is not associated with any of the company's substantial shareholders;<sup>6</sup>
- 3) is not associated with any of the company's material trading partners;<sup>7</sup> and
- 4) is not associated with the government (the Russian Federation or its subject) or a municipality.

103. A person should be deemed to be associated with the company, as a minimum, if such person and/or any persons associated therewith:

- 1) are or were during the last three years members of the executive bodies or employees of the company, any entity controlled by the company and/or its management company; or

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<sup>6</sup> For the purpose of this Code, a substantial shareholder means any person who is entitled, whether directly or indirectly, acting through entities controlled thereby, on his own or together with other persons associated therewith 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 percent of votes attaching to the company's voting shares in its share capital.

<sup>7</sup> For the purpose of this Code, a material trading partner of the company means any person being a party to a contract(s) with the company under which the amount of obligations amounts to two or more percent of the book value of its assets or two or more percent of the company's proceeds (receipts) (with the account of the group of entities controlled by the company) or such material trading partner (or its group of entities).

- 2) are members of the board of directors of a legal entity that controls the company or is controlled thereby or of such legal entity's management company; or
- 3) during any of the last three years received remuneration and/or other material benefits from the company and/or entities controlled thereby in excess of 50% of the annual fixed fee due to a board member of the company. For this purpose, no account should be taken of any 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 member of the board of directors of the company and/or an entity controlled thereby, 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 issued by the company and/or an entity controlled thereby; or
- 4) are owners or beneficiaries<sup>8</sup> of any shares issued by the company which account for more than one percent of the share capital or the total number of the voting shares of the company or whose market value exceeds 20 times the annual fixed fee due to a board member of the company; or
- 5) are employees and/or members of executive bodies of a legal entity in the event that the amount of their remuneration is set (considered) by the remuneration committee of such legal entity's board of directors or by its board of directors and that any employee and/or member of the executive bodies of the company is a member of such remuneration committee (or board of directors) of such entity; or
- 6) provide advisory services to the company, any of its controlling shareholders or any legal entities controlled by the company or are members of management bodies of any entities providing such services to the company or any of the above entities or are employees of such entities directly involved in the provision of such services; or
- 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, during the last three years, were members of management bodies of any entities providing any such services to above-mentioned legal entities, or of the company's rating agency or were employees of such entities or rating agency directly involved in the provision of such services to the company.

104. In addition, a person shall be deemed to be associated with the company if he/she has been a member of its board of directors for more than seven years in aggregate.

105. A person shall be deemed to be associated with any of the company's substantial shareholders if such person and/or any persons associated therewith:

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<sup>8</sup> 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.



- 1) are employees and/or members of the executive bodies of any of the company's substantial shareholders or a legal entity within the substantial shareholder's group of entities; or
- 2) during any of the last three years received remuneration and/or other material benefits from a substantial shareholder of the company (or a legal entity forming part of a group of entities which includes a substantial shareholder of the company) in excess of 50% of the annual fixed fee due to a board member of the company. For this purpose, no account should be taken of any 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 member of the board of directors (or a committee of the board of directors) of such substantial shareholder of the company (or a legal entity of a group of organisations which includes such substantial shareholder of the company), 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 issued by such substantial shareholder of the company (or a legal entity forming part of a group of organisations which includes the substantial shareholder of the company); or
- 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 such substantial shareholder.

106. A person shall be deemed to be associated with any of the company's material trading partners or competitors, as a minimum, if such person and/or any persons associated therewith:

- 1) are employees and/or members of a management body of such 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; or
- 2) hold shares (interests) or are beneficiaries in relation to shares (interests) in a major trading partner or competitor of the company which comprise more than five percent of its share capital or the total number of its voting shares (interests).

107. A person shall be deemed to be associated with the government or a municipality if such person is:

- 1) is or was during the year preceding his/her election to the board of directors of the company, a governmental or municipal employee, an official of any government authority or an employee of the Bank of Russia; or
- 2) is a representative of the Russian Federation, its subject 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"); or
- 3) is obliged to vote on one or more matters falling within the jurisdiction of the company's board of directors in accordance with instructions of the Russian Federation, its subject or a municipality; or

- 4) is or was not during the year preceding his/her election to the board of directors of the company, an employee or a member of an executive body or other employee authorised to perform any managerial functions of an entity under the control of the Russian Federation, its subject or a municipality, or an employee of a governmental or municipal unitary enterprise or institution (save for employees of governmental or municipal educational or research organisations who are involved in teaching and research and have not been appointed to the position of the one-person executive body or other position within such governmental or municipal educational or research organisation upon the decision or with the consent of a governmental authority (or a local self-government body)), where such person is nominated for election to the board of directors of the company in which the Russian Federation, its subject or the municipality controls more than 20 percent of the company's share capital or of its voting shares.

*2.4.2 It is recommended to evaluate whether candidates nominated to the board of directors meet independence criteria as well as to review, on a regular basis, whether or not independent board members meet the independence criteria. When carrying out such evaluation, substance should take precedence over form.*

108. The board of directors (or its nomination committee) should (in particular, with the account of information provided by a candidate to the board of directors) evaluate such candidate's independence and issue an opinion of his/her independence as well as to review, on a regular basis, whether or not independent board members meet the criteria of independence and procure prompt disclosure of information on any circumstances as a result of which a particular board member ceases to be independent. When evaluating whether a particular candidate (board member) is independent, substance should take precedence over form.

109. In certain exceptional instances, when performing such evaluation, the board of directors may deem a particular candidate (board member) to be independent even though he/she formally meets any criterion of affiliation with the company, its significant shareholders or any of its material trading partners or competitors, provided that such affiliation does not affect his/her ability to make independent, objective and bona fide judgements.

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

- 1) a person associated with such candidate (board member) is an employee (save for an employee authorised to perform any managerial functions) of an organisation controlled by the company or of a legal entity forming part of a group of entities to which a significant 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 any material trading partner or competitor of the company, or of any organisation controlled by such legal entity;

- 2) due to its nature, the relationship between such candidate (board member) and his/her associated person cannot affect any decision that such candidate [(board member)] can make; or
- 3) such candidate (board member) is widely known, including among investors, as a person who is able to make his/her independent judgements on his/her own.

111. An independent director should abstain from performing any action as a result of which he/she may cease to be independent. If, after a person is elected to the board of directors as an independent director, there occurs a circumstance as a result of which such director ceases to be independent, he/she shall be obliged to notify the board of directors accordingly, and the board of directors should procure that information on such board member's loss of his/her status of an independent director be disclosed. The company should provide, in its internal documents, for procedures to be followed if a board member ceases to be independent.

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

112. To enable the board of directors to efficiently perform its functions, including those relating to the protection of shareholders' interests and risk management, the board of directors should include independent directors.

113. Independent directors are meant to make a significant contribution to discussion and decision-making, first of all, on such issues as developing a strategy for the company's development and assessing whether or not the company's activity corresponds to its development strategy, preventing and resolving corporate disputes, evaluating the performance of the executive bodies, assessing whether or not the company's activity corresponds to the interests of all of its shareholders, disclosing reliable information on the company's activity in due time, reorganizing and increasing its share capital, making material changes to the company's articles of association which affect the rights of its shareholders, as well as on issues relating to the procedures for the company takeover and other important issues which may affect the interests of the shareholders.

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

*2.4.4. Independent directors should play a key role in prevention of internal conflicts in the company and performance by the latter of material corporate actions.*

115. A special role in prevention of corporate conflicts and evaluation of material corporate actions should belong to independent directors of the company. Its independent directors should carry out a preliminary evaluation of the company's actions and draft

resolutions which might result in a corporate conflict. A document setting out the results of such evaluation should be made available as part of materials to be provided in connection with a board meeting where a respective matter is to be considered.

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

*2.5.1. It is recommended to either elect an independent director to the position of the chairman of the board of directors or identify the senior independent director among the company's independent directors who would coordinate work of the independent directors and liaise with the chairman of the board of directors.*

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

117. To create an efficient system of checks and balances at the level of the company's board of directors, it is recommended to either elect an independent director to the position of the chairman of the board of directors or identify the senior independent director among the company's independent directors. For this purpose, it would be advisable to procure that the senior independent director acts as an advisor to the chairman of the board of directors, thus helping to make its work more efficient and coordinating work of the independent directors, in particular, convening, as appropriate, and chairing meetings of the independent directors.

118. It would be advisable for the senior independent director to play a key role when evaluating the efficiency of performance of the board chairman and when dealing with proposed successors to the position of the board chairman.

119. The company's shareholders should be able to communicate with the senior independent director (along with the chairman of the board of directors) via "My account" section on the company's website, the corporate secretary, the office of the board chairman or using any other available and user-friendly means.

120. In a conflict situation (for example, if there are significant disagreements between board members or if the board chairman fails to pay attention to any matters which are requested to be considered by individual board members or the company's shareholders entitled to apply to the board of directors for that purpose), the senior independent director should use his/her efforts to resolve the conflict by liaising with the board chairman, other board members and the company's shareholders with a view to ensuring efficient and stable work of the board of directors.

121. The rights and duties of the senior independent director, including his/her role in resolving conflicts in the board of directors, should conform to the recommendations of this Code and should be clearly set out in the company's internal documents and explained to its board members.

*2.5.2. The board chairman should ensure that board meetings are held in a constructive atmosphere and that any items on the meeting agenda are discussed freely. The chairman should also monitor fulfilment of decisions made by the board of directors.*

122. The chairman of the board of directors shall arrange for developing a plan of work for the board of directors, exercising control over implementation of its resolutions, drawing up agendas of board meetings, developing most efficient decisions on various matters on the agenda and, if necessary, shall organize free discussion of such matters. The chairman shall also ensure that such meetings are held in a constructive atmosphere.

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

*2.5.3. The chairman of the board of directors should take any and all measures as may be required to provide the board members in a timely fashion with information required to make decisions on issues on the agenda.*

124. Internal documents of the company should provide for the duty of the board chairman to take any and all measures as may be required to provide the board members in a timely fashion with information required to resolve issues on the agenda as well as to take the lead in drafting resolutions on issues under consideration.

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

**2.6. Board members must act reasonably and in good faith in the best interests of the company and its shareholders, being sufficiently informed, with due care and diligence.**

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

126. Board members should carry out their duties reasonably and in good faith, with due care and diligence and in the best interests of the company and of its shareholders in order to achieve sustainable and successful development of the company.

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

128. If a board member has a potential conflict of interest,<sup>9</sup> in particular, if he/she is interested in a particular transaction of the company, the board member must notify the board of directors accordingly and, in any case, postpone his/her own interests to those of the company.

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

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

131. The company should provide for a procedure (and a related budget) enabling board members to receive, at the expense of the company, professional advice on issues relating to the jurisdiction of the board of directors.

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

133. If a board member has a conflict of interest, he/she should promptly inform the board of directors (through its chairman or the company's corporate secretary) both of the existence of and grounds for such conflict of interest. In any case, such notification shall be made before the issue in respect of which such board member has the conflict of interest is discussed at a meeting of the board of directors or any of its committees at which such board member is present.

134. If a board member has a conflict of interest, he/she may not take part in decision-making. He/she should abstain from voting on any issues in respect of which he/she has a conflict of

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<sup>9</sup> A conflict of interest means any contradiction between the company's interests and personal interests of a member of its board of directors or the collective executive body or those of its one-person executive body; such personal interests shall mean any direct or indirect personal interests or interests favouring a third party, including any interests arising by virtue of such member's or one-person executive body's business, friendship, family or other ties and relations, positions held by him/her or by any persons affiliated with him/her in any other legal entity, his/her or such affiliated persons' ownership of shares in another legal entity, or contradiction between such person's duties vis-à-vis the company and vis-à-vis such other legal entity. A conflict of interest may result, in particular, from the entering into a transaction in which a respective person is interested, whether directly or not, acquisition of shares (interests) in any legal entity competing with the company, or holding a position in such a legal entity, or entering into contractual relations or other connection with it.

interest.

135. Where the nature of a matter being discussed or the specifics of a particular conflict of interest requires to do so, the board of directors should suggest that the board member who has such conflict of interest should not be present at the meeting where the respective matter is to be discussed.

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

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

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

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

In view of the foregoing, it is advisable for the company to maintain, at its own expense, liability insurance in respect of its board members; then, if losses are inflicted on the company or

any third party through any actions of board members, it will be possible to get reimbursement of such losses. Liability insurance will not only allow the company to compensate its losses but will also enable it to attract competent professionals to become board members where such professionals would otherwise be afraid of major potential claims that could be brought against them.

140. Under the law, the duty to act reasonably and in good faith in the best interests of the company is imposed also on its executive bodies. Therefore, the recommendations and comments set out in this Code in relation to reasonable and bona fide actions of board members and their liability insurance should also apply to the company's executive bodies.

*2.6.2. Rights and duties of board members should be clearly stated and documented in the company's internal documents.*

*2.6.3. Board members should have sufficient time to perform their duties.*

141. To be able to perform their duties efficiently and thoroughly, among other things, the board members should be able to spend sufficient time working at the board of directors, including in its committees.

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

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

143. The efficiency of work carried out by board members (especially non-executive directors and independent directors) largely depends on the form, timing and quality of information they receive. The information that is periodically presented to board members by the executive bodies is not always sufficient to enable the board members to properly perform their duties. In this regard, board members are encouraged to request additional information when such information is necessary to make an informed decision. The duty of the company's officials to provide the board members with such information should be set forth by the company's internal documents.

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



145. It is important to procure that the board members are able to obtain all required information as well as to request information from the company and promptly receive answers to their queries. All the board members should have equal rights of access to the documents of the company and those of the legal entities controlled by the latter.

It is recommended to presume that if any document requested by a board member contains confidential information, including trade secrets, this may not prevent such document from being provided to the board member. The board member to whom such information is provided shall be obliged to keep it confidential, and such duty should be set forth in the company's internal documents. To confirm that he/she has assumed such duty to keep information confidential, the board member might be required to issue a respective written acknowledgement or such duty may be set forth in a contract entered into with him/her.

146. The company should not refuse to provide information to board members because, in the opinion of the company, the information requested thereby has nothing to do with the agenda of a meeting of the board of directors or the latter's jurisdiction.

147. The company should have in place a system that ensures regular dissemination of information to the board members about most important developments relating to financial and business activities of the company and legal entities controlled thereby, as well as about other events that affect the interests of its shareholders.

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

149. It is also recommended to provide and set forth in the internal documents of the company the manner of and procedures for provision of information by the executive bodies to the board members, for example, through a corporate secretary of the company.

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

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

*2.7.1. It is recommended to hold meetings of the board of directors as needed, with due account of the company's scope of activities and its then current goals.*

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

152. Discussion of matters and recommendations thereon provided by committees of the board of directors as well as passing respective resolutions should take a considerable part of time at a board meeting.

153. The company should allow board meetings to be held both in person and without physical presence of the board members.

154. A board member should notify the board of directors of his/her inability to attend a board meeting in advance, specifying the reasons thereof.

155. Minutes of a meeting of the board of directors should contain information on how each director voted on various matters included in the agenda of the meeting.

156. It is recommended to hold meetings of the board of directors as needed, as a rule, at least once every two months, and in accordance with a plan of work approved by the board of directors. The board of directors' work plan should include a list of issues to be considered at respective meetings.

157. As soon as practicable after the general meeting at which the board of directors was elected, it is recommended to hold its first meeting. At such first board meeting, the board of directors should elect its chairman, form its committees, and elect their chairpersons.

*2.7.2. It is recommended to develop a procedure for preparing for and holding meetings of the board of directors and set it out in the company's internal documents. The above procedure should enable the shareholders to get prepared properly for such meetings.*

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

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

160. It is recommended to enable those board members who are away from the place where a meeting is held to participate in discussing and voting on the agenda items remotely, via conference and video-conference calls.

161. The company's articles of association or internal documents should 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 with a view to considering most important issues relating to the company's business. Such threshold should be no more than two percent of the total number of the company's voting shares.<sup>10</sup>

162. To enable the board members to get properly prepared for a board meeting, the time limits for notifying them about such meeting should be reasonable and justified.

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

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

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

166. To create an effective mechanism of accountability of members of the board of directors, the company should maintain and keep, along with the minutes, transcripts of (or other means of documenting) meetings of the board of directors containing information on the position of each member of the board of directors on issues on its agenda. Dissenting opinions of board

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<sup>10</sup> If the legislation sets forth other requirements to the respective threshold percentage of the voting shares, this recommendation shall not apply.

members, if any, should be enclosed with minutes of the board meetings and shall form integral part thereof.

*2.7.3. The form of a meeting of the board of directors should be determined with due account of importance of issues on the agenda of the meeting. Most important issues should be decided at the meetings held in person.*

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

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

- 1) approval of priority business areas and a financial and business plan of the company;
- 2) convening an annual general meeting and making decisions necessary for its convocation and holding, convocation or refusal 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 of directors;
- 5) creation and early dismissal of the company's executive bodies if such matter falls within the jurisdiction of the board of directors in accordance with the articles of association of the company;
- 6) suspension of the one-person executive body of the company and appointment of a provisional one-person executive body, where the creation (appointment) of the company's executive bodies does not fall within the jurisdiction of the board of directors in accordance with the articles of association of the company;
- 7) submission for consideration by the general meeting of proposals relating to the company's reorganisation (including determination of a conversion ratio for the company's shares) or liquidation;
- 8) approval of material transactions<sup>11</sup> of the company;
- 9) approval of the company's registrar and terms and conditions of a contract to be entered with such registrar, as well as termination of such contract;
- 10) submission for consideration by the general meeting of a proposal on the transfer of powers of the one-person executive body to a management company or manager;
- 11) consideration of material aspects of business of any legal entities controlled by the company;<sup>12</sup>

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<sup>11</sup> Material transactions of a company mean its major transactions, any interested party transactions that are material to the company (with the company determining the materiality criteria), and other transactions that the company deems to be material for it.

<sup>12</sup> Material aspects of business of legal entities controlled by the company mean any transactions entered into by such legal entities as well as other aspects of their business that, in the opinion of the company, materially affect

- 12) issues relating to the receipt by the company of a mandatory or voluntary offer;
- 13) issues relating to an increase in the share capital of the company (including determining the value of property to be contributed as payment for additional shares placed by the company);
- 14) review of financial activities of the company during a reporting period (quarter, year);
- 15) issues relating to listing and delisting of shares in the company;
- 16) review of the results of evaluation of efficiency of work of the company's board of directors, its executive bodies and key managers;
- 17) making decisions on remuneration to be paid to members of the company's executive bodies and other key managers;
- 18) review of the risk management policy; and
- 19) approval of the company's dividend policy.

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

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

170. Such issues to be approved by a qualified majority or majority vote of all elected board members should include:

- 1) approval of priority business areas and a financial and business plan of the company;
- 2) approval of a dividend policy of the company;
- 3) making a decision on listing of the company's shares and/or securities convertible into its shares;
- 4) determining the price of a material transaction to be entered into by the company and approval of such transaction;
- 5) submission for consideration by the general meeting of proposals on the company's reorganisation or liquidation;
- 6) submission for consideration by the general meeting of proposals to increase or reduce the share capital of the company, determination of the price (value) of property to be contributed as payment for additional shares being placed by the company;
- 7) submission for consideration by the general meeting of any issues relating to changes to the company's articles of association, approval of material transactions of the

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financial condition, financial performance results, and changes in the financial position of the group of entities of which the company and legal entities controlled thereby form part.

- 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 any legal entities controlled by the company;
  - 9) adoption of recommendations relating to a voluntary or mandatory offer received by the company; and
  - 10) adoption of recommendations relating to the amount of dividends payable on shares of the company.

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

*2.8.1. For the purpose of preliminary consideration of any matters of control over the company's financial and business activities, it is recommended to form an audit committee comprised of independent directors.*

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

172. The main objectives of the audit committee are as follows:

- 1) in relation to accounting (financial) statements:
  - a) control over completeness, accuracy, and reliability of the company's accounting (financial) statements;
  - b) analysis of material aspects of accounting policies of the company;
  - c) participation in consideration of material issues and opinions in relation to the company's accounting (financial) statements;
- 2) in relation to risk management, internal control, and, should there be no corporate governance committee, in relation to corporate governance:
  - a) control over safety and efficiency of the risk management and internal control system and the corporate governance system, including evaluation of efficiency of risk management and internal control procedures, and corporate governance practices as well as drafting proposals for their improvement;
  - b) review and evaluation of implementation of policies relating to risk management and internal control;
  - c) control over procedures that ensure the compliance by the company with the requirements of law and ethical standards, rules, and procedures of the company, and requirements of exchanges; and
  - d) review and evaluation of implementation of policies relating to conflicts of interest management;
- 3) in relation to internal and external audits:
  - a) ensuring the independence and objectivity of the internal audit function;

- b) review of policies relating to internal auditing (regulations on internal auditing);
  - c) review of a plan of work of the internal audit department;
  - d) consideration of issues relating to the appointment (dismissal) of the head of the internal audit department and the amount of his/her remuneration;
  - e) review of existing authority or budget restrictions on implementation of the internal audit function which can adversely affect its efficiency;
  - f) evaluation of the efficiency of the internal audit function;
  - g) consideration of the need for the internal audit system (if there is no such function in the company) and provision of the findings to the board of directors;
  - h) evaluation of independence, objectivity of and lack of conflict of interest in relation to the external auditors of the company, including evaluation of proposed auditors of the company, development of proposals on appointment, re-election and dismissal of the external auditors of the company, on payment for their services and terms and conditions of their engagement;
  - i) control over external audits and evaluation of the quality of an external audit and the auditor's reports; and
  - j) ensuring efficient cooperation between the internal audit department and the external auditor of the company; and
  - k) developing and exercising control over implementation of the company's policy which sets forth the principles of provision by auditors of both auditing and non-auditing services to the company;
- 4) in relation to prevention of bad faith action on the part of the company's employees and third parties:<sup>13</sup>
- a) control over the efficiency of a system of warnings about potential bad faith actions on the part of any of the company's employees and third parties, as well as other violations in the company;
  - b) control over special investigations relating to potential fraud or misuse of insider or confidential information; and
  - c) control over implementation of measures taken by the executive management of the company in connection with the receipt of information about potential bad faith actions on the part of any of the company's employees and other violations.

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

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<sup>13</sup> Including negligence, fraud, bribery and corruption, commercial bribery, abuses, and various illegal activities that are detrimental to the company.

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

175. The audit committee may invite to its meetings, as appropriate, any officers of the company, the head of the internal audit department and representatives of the external auditors of the company, as well as retain, on a permanent or temporary basis, independent consultants (experts) who shall take part in the work of the audit committee for the purpose of preparing materials and recommendations in relation to any matters included in the agenda.

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

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

*2.8.2. For the purpose of preliminary consideration of any matters of development of efficient and transparent remuneration practices, it is recommended to form a remuneration committee comprised of independent directors and chaired by an independent director who should not concurrently be the board chairman.*

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

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

180. The objectives of the remuneration committee should include:

- 1) development and periodic review of the company's policy on remuneration due to the members of the board of directors and the company's executive bodies and other key managers, including development of parameters of short and long-term incentive programmes for the members of the executive bodies;
- 2) control over implementation of the company's remuneration policy and various incentive programmes;
- 3) preliminary assessment of work of the company's executive bodies and other key managers upon the results of a year in the context of the criteria set forth in the remuneration policy, as well as preliminary assessment of whether or not the above persons achieved their goals under the long-term incentive programme;



- 4) development of terms and conditions of early termination of employment contracts with members of the company's executive bodies and other key managers, including all financial obligations of company and conditions on which such obligations shall be assumed;
- 5) selection of an independent consultant to advise on remuneration due to the company's members of the executive bodies and other key managers, and where the policy of the company requires it to hold tender procedures for selecting such consultant, setting the terms and conditions of the tender and carrying out the functions of the tender commission;
- 6) drafting recommendations to the board of directors in relation to the setting of the amount of remuneration and principles of payment of bonuses to the corporate secretary of the company, as well as preliminary assessment of his/her work upon the results of a reporting year and proposals on bonuses to be paid to the corporate secretary; and
- 7) preparing a report on practical implementation of the policies on remuneration due to the board members, members of the company's executive bodies, and other key managers; such report shall be included in the annual report and other documents of the company.

181. The remuneration committee of the board of directors exercises control over disclosure of information on remuneration policies and practices and on the company's shares owned by board members and members of the collective executive bodies and other key managers, in the company's annual report and on its corporate website.

*2.8.3. For the purpose of preliminary consideration of any matters relating to human resources planning (making plans regarding successor directors), professional composition and efficiency of the board of directors, it is recommended to form a nominating committee (a committee on nominations, appointments and human resources) with a majority of its members being independent directors.*

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

183. Most nominating committee members must be independent directors.

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

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

186. The objectives of the nominating committee should include:

- 1) evaluation of the composition of the board of directors in terms of professional expertise, experience, independence, and involvement of its members in the work of the board, as well as determining priority areas for improving the composition of the board;
- 2) interaction with the shareholders (which should not be limited to the largest shareholders only) in the context of finding candidates who can be nominated to the board of directors. Such interaction should be aimed at forming the board of directors in such a way that it would be most suitable for the purpose and objectives of the company;
- 3) analysis of professional qualifications and independence of all candidates nominated to the board of directors, based on all information available to the nominating committee; drafting and communicating recommendations to the shareholders in respect of their voting in the election of candidates to the board of directors;
- 4) description of individual duties of directors and the chairman of the board of directors, including time they should spend on issues related to the company's activities, both at and outside the board meetings, in the course of planned and unplanned work. Such descriptions (which shall be prepared separately for the board members and the chairman of the board of directors) must be approved by the board of directors and provided to each new board member and the chairman for review after their election;
- 5) carrying out an annual detailed formalised procedure of self-evaluation or external evaluation of the board of directors and its committees from the standpoint of their performance as a whole and individual contributions of directors to the work of the board of directors and its committees, drafting recommendations to the board of directors on improving proceedings of the board and its committees, preparing a report on the results of such self-evaluation or external evaluation which shall be included in the company's annual report;
- 6) preparing an introductory programme for newly elected board members designed to help them get familiarized with the company's key assets and strategy, its business practices, organisational structure, and key managers of the company, as well as proceedings of the board of directors; exercising control over practical implementation of the introductory programme;
- 7) preparing an educational and training programme for board members which takes account of their individual needs, as well as exercising control over practical implementation of the programme;
- 8) analysis of current and anticipated needs of the company in terms of professional qualifications of the members of its executive bodies and other key managers as may

be required to ensure its competitiveness and development as well as making plans regarding their successors;

- 9) drafting recommendations for the board of directors on candidates for the position of the corporate secretary of the company;
- 10) drafting recommendations for the board of directors on candidates for positions of members of the company's executive bodies and other key managers; and
- 11) preparing a report on the results of the nominating committee's work which shall be included in the annual report and other documents of the company.

187. The nominating committee shall determine a self-evaluation methodology and provide recommendations on selection of an independent consultant who will evaluate the board of directors' performance. Such methodology and a proposed independent consultant should be approved by the board of directors.

*2.8.4. Taking account of its scope of activities and levels of related risks, the company should form other committees of its board of directors, in particular, a strategy committee, a corporate governance committee, an ethics committee, a risk management committee, a budget committee or a committee on health, security and environment, etc.*

188. The creation of committees of the board of directors is an essential condition of its effective functioning. The committees of the board of directors are meant to consider, on a preliminary basis, most important issues and make recommendations to the board of directors enabling the latter to make decisions on matters within its jurisdiction.

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

190. In addition to an audit committee, a nominating committee, and a remuneration committee, which should be formed on a priority basis, the board of directors may also establish other permanent or temporary (*ad hoc*) committees as it deems necessary, in particular, a corporate governance committee, an ethics committee, a risk management committee, a budget committee or a committee on health, security and environment.

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

192. The tasks of the strategy committee should include the following:

- 1) determining strategic goals of the company's business, control over implementation of its strategy, developing recommendations for the board of directors on adjustments to be made to the company's existing development strategy;
- 2) determining priority areas of the company's business;
- 3) developing recommendations on the company's dividend policy;

- 4) evaluation of the long-term efficiency of the company's performance;
- 5) consideration, on a preliminary basis, and development of recommendations on various matters relating to the company's participation in other entities (including on direct and indirect acquisitions and disposals of interests in the share capitals of other entities, granting a charge of shares or interests);
- 6) evaluation of voluntary and mandatory offers to purchase the company's securities;
- 7) review of a financial model and a model of evaluation of the company's business and the value of its business segments;
- 8) consideration of any matters in relation to reorganisation and liquidation of the company and entities controlled thereby;
- 9) consideration of any matters in relation to the organisational structure of the company и entities controlled thereby; and
- 10) consideration of any matters in relation to reorganisation of business processes of the company and legal entities controlled thereby.

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

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

195. The company should approve internal documents setting forth the tasks of each of the committees, their powers, the procedure for their creation and work as well as disclose information about the committees which have been so established. It should also procure that such committees' recommendations are included in the minutes of the board meeting that considered the matter in respect of which such recommendations have been given.

196. If the board of directors passes a resolution which runs contrary to recommendations of its committee, it should give reasons why it chose to ignore such recommendations. Such explanations should be included in the minutes of a respective board meeting.

*2.8.5. The composition of the committees should be determined in such a way that it would allow a comprehensive discussion of issues being considered on a preliminary basis with due account of differing opinions.*

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

198. Since participation in the work of a committee requires board members to thoroughly review each issue being discussed by the committee, it is recommended to set the maximum number of committees in whose work a board member may take part.

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

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

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

*2.8.6 The chairmen of the committees should inform the board of directors and its chairman of the work of their committees on a regular basis.*

202. Chairmen of the committees should inform the chairman of the board of directors of the work of their committees.

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

## **2.9. The board of directors should procure evaluation of quality of its work and that of its committees and board members.**

*2.9.1. Evaluation of quality of the board of directors' work should be aimed at determining how efficiently the board of directors, its committees and board members work and whether their work meets the company's needs, as well as at making their work more intensive and identifying areas of improvement.*

204. Evaluation of quality of the board of directors' work enables one to determine how much its members contribute to implementation of the company's strategy and its major goals,

and helps enhance the role of the board of directors in procuring the company's successful development.

205. It is recommended that evaluation of the board of directors' work be carried out with due care and pursuant to a formal procedure, and that it include not only an assessment of its work in general, but also an assessment of work of its committees and each board member, including its chairman.

206. Performance of the board chairman should be evaluated by the independent directors (who shall be chaired by the senior independent director, if such director is elected in accordance with the company's internal documents), with due account of opinions of all the board members.

207. Criteria for evaluation of the board of directors must include evaluation of professional and personal qualities of the board members, their independence, level of coordination of their work and their personal contributions, as well as other factors affecting the performance of the board of directors.

208. The results of a self-evaluation or third-party evaluation shall be considered at a board meeting to be held in the form of joint presence of its members.

209. The chairman of the board of directors and the nominating committee shall, if necessary, develop proposals on how to improve work of the board of directors and its committees, taking account of the results of such evaluation. Based on the results of evaluation of individual members of the board of directors, recommendations may be given regarding training/education of such members. Should this be necessary, individual educational (training) programmes should be developed and implemented. The chairman of the board of directors and the nominating committee shall exercise control over implementation of such programmes.

*2.9.2. Quality of work of the board of directors, its committees and board members should be evaluated on a regular basis, at least once a year. To carry out an independent evaluation of the quality of the board of directors' work, it is recommended to retain a third party entity (consultant) on a regular basis, at least once every three years.*

210. Efficiency of the board's work may be evaluated by the board of directors on its own (self-evaluation) or by a third-party external entity (consultant) retained thereby which shall be qualified to conduct such evaluation. Such evaluation must be conducted annually, and it is recommended to retain an independent consultant for that purpose at least once every three years.

### III. CORPORATE SECRETARY OF THE COMPANY

**3.1 The company's corporate secretary shall be responsible for efficient interaction with its shareholders, coordination of the company's actions designed to protect the rights and interests of its shareholders, and support of efficient work of its board of directors.**

*3.1.1 The corporate secretary should have knowledge, experience, and qualifications sufficient for performance of his/her duties, as well as an impeccable reputation and should enjoy the trust of the shareholders.*

211. It is recommended to appoint as corporate secretary a person who has a degree in law, economics or business and at least two years of experience in the area of corporate governance or as a manager.

212. It is not advisable to appoint as corporate secretary a person who is affiliated with the company or is associated with a person that controls the company or with executive managers of the company, as this can give rise to a conflict of interest and prevent the corporate secretary from performing his/her task properly.

213. If there is a conflict of interest, the corporate secretary must immediately notify the chairman of the board of directors accordingly.

214. The corporate secretary should take care of improving his/her skills and expertise on a regular basis. For the sake of peer learning, the corporate secretary is recommended to maintain regular professional interactions, for example, by participating in a professional association of corporate secretaries.

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

*3.1.2. The corporate secretary should be sufficiently independent of the company's executive bodies and be vested with powers and resources required to perform his/her tasks.*

216. To ensure the independence of the company's corporate secretary, he/she should report directly to the board of directors. For that purpose, it should be provided that the following issues fall within the jurisdiction of the board of directors:

- 1) approval of a candidate nominated to the position of the corporate secretary and his/her dismissal;
- 2) approval of a Regulation on the Corporate Secretary;

- 3) evaluation of performance of the corporate secretary and approval of reports on his/her work; and
- 4) payment of additional remuneration to the corporate secretary.

217. The company should approve an internal document, the Regulation on the Corporate Secretary, setting out:

- 1) the requirements to a candidate nominated to the position of the corporate secretary;
- 2) a procedure for appointing a corporate secretary and his/her dismissal;
- 3) lines of reporting for the corporate secretary and a procedure for his/her interaction with the management bodies and structural units of the company;
- 4) the functions, rights, and duties of the corporate secretary;
- 5) the terms and conditions of and a procedure for paying remuneration to the corporate secretary; and
- 6) responsibility of the corporate secretary.

218. The functions of the corporate secretary should include:

- 1) taking part in making arrangements for preparing for and holding general meetings;
- 2) providing required support to make work of the board of directors and its committees possible;
- 3) taking part in implementation of the company's information disclosure policy and ensuring the keeping of corporate documents of the company;
- 4) ensuring interaction of the company with its shareholders and taking part in prevention of corporate conflicts;
- 5) ensuring interaction of the company with regulators, market makers, its registrar, and other professional participants of the securities market, within the powers of the corporate secretary;
- 6) ensuring compliance (and exercising control over compliance) with procedures provided for by the legislation and the company's internal documents and ensuring the exercise of rights and protection of legitimate interests of the shareholders;
- 7) promptly informing the board of directors of any and all identified violations of law or provisions of the internal documents of the company the compliance with which forms part of the functions of the company's secretary; and
- 8) participating in improving the corporate governance system and practices of the company.

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

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



- 3) monitor compliance by officers and employees of the company with its articles of association and internal documents to the extent this concerns the corporate secretary's functions; and
- 4) liaise with the chairman of the board of directors and chairmen of the latter's committees.

220. Depending on the scope of the company's business, its ownership structure, and the number of its minority shareholders, the functions of a corporate secretary may be performed by a single person (corporate secretary proper) or a specialised structural unit headed by the company's corporate secretary.

221. It is not recommended to allow the corporate secretary to carry out his/her work concurrently with performing any other functions in the company.

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

**4.1. The level of remuneration paid by the company should be sufficient to enable it to attract, motivate, and retain persons having required skills and qualifications. Remuneration due to board members, the executive bodies, and other key managers of the company should be paid in accordance with a remuneration policy approved by the company.**

*4.1.1. It is recommended that the level of remuneration paid by the company to its board members, executive bodies, and other key managers should be sufficient to motivate them to work efficiently and enable the company to attract and retain knowledgeable, skilled, and duly qualified persons. The company should avoid setting the level of remuneration any higher than necessary, as well as an excessively large gap between the level of remuneration of any of the above persons and that of the company's employees.*

222. A level of remuneration of members of the company's board of directors, executive bodies and other key managers should be sufficient to attract, retain, and motivate managers who have required professional skills and qualities enabling them to manage the company efficiently. The company should not pay remuneration to any such persons in excess of a level required to achieve these goals.

223. When carrying out a comparative review of the level of remuneration existing in the company with that of other comparable companies, the company should use a balanced approach to the positioning of a target level of remuneration. Desire to set the remuneration level higher than in comparable companies is not always justified and might trigger spiral growth of fees paid in a respective industry, without achieving higher results, whether on the part of the particular company or the industry as a whole, that would be commensurate with the overall increase of the remuneration level.

*4.1.2. The company's remuneration policy should be developed by its remuneration committee and approved by the board of directors. With the help of its remuneration committee, the board of directors should monitor implementation of and compliance with the remuneration policy by the company and, should this be necessary, review and amend the same.*

224. Acting on behalf of the shareholders and in accordance with their long-term interests, the board of directors, with the support of the remuneration committee, shall develop, approve, and exercise control over implementation in the company of a remuneration system (including a system of short-term and long-term incentives) in relation to members of the company's executive bodies and other key managers.

225. When creating and revising the system of remuneration of members of the company's executive bodies and other key managers, the remuneration committee of the board of directors shall review and provide the board of directors with recommendations regarding each component of the remuneration system and proportions between such components, in order to ensure a reasonable balance between short-and long-term performance results. For this purpose, short-term performance results shall mean any performance results for a period not exceeding three years, and long-term performance results shall mean those for a period of at least five years.

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

*4.1.3. The company's remuneration policy should provide for transparent mechanisms to be used to determine the amount of remuneration due to members of the board of directors, the executive bodies, and other key managers of the company, as well as to regulate any and all types of payments, benefits, and privileges provided to any of the above persons.*

227. The company's policy regarding remuneration of members of the board of directors, executive bodies, and other key managers should ensure transparency of all financial benefits by providing a clear explanation of existing approaches and principles, as well as disclosing detailed information on all types of payments, benefits, and privileges made and granted to members of the board of directors, executive bodies, and other key managers in consideration of performance of their duties.

228. Regardless of procedures that the company uses when developing its remuneration policy and its approaches to use of particular types of remuneration, the company should avoid any conflicts of interest when setting the amount of remuneration due to a particular person. In particular, a person whose remuneration is being discussed should not participate in discussing the same and making a decision thereon.

*4.1.4. The company is recommended to develop a policy on reimbursement of expenses which would contain a list of reimbursable expenses and specify service levels provided to members of the board of directors, the executive bodies, and other key managers of the company. Such policy can form part of the company's policy on compensations.*

229. The company's expense reimbursement policy should contain a detailed list of reimbursable expenses and service levels to which members of the company's board of directors, the executive bodies, and other key managers are entitled when performing their duties.

230. Members of the company's board of directors, the executive bodies, and other key managers should be reimbursed (compensated) for their expenses incurred when travelling to/from the place of a board meeting and in connection with other trips undertaken when performing their duties.

231. It is not recommended to compensate the board members for any expenses other than those incurred when travelling to/from the place of a board meeting and in connection with other trips undertaken as part of work of the board of directors and its committees.

232. It is not recommended to provide, in relation to (non-executive and independent) directors, for any pension contributions, insurance programmes (other than directors' liability insurance and insurance related to travelling in connection with the board of directors' work), investment programmes, or other benefits and privileges.

#### **4.2. The system of remuneration of board members should ensure harmonisation of financial interests of the directors with long-term financial interests of the shareholders.**

*4.2.1. A fixed annual fee shall be a preferred form of monetary remuneration of the board members. It is not advisable to pay a fee for participation in individual meetings of the board of*

*directors or its committees. It is not advisable to use any form of short-term incentives or additional financial incentives in respect of board members.*

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

234. Participation in meetings of the board of directors or any of its committees (including any ad hoc meetings), discussion of any items of its agenda or passing resolutions thereon is a basic duty of a director and shall not be rewarded because respective time spent by the director and his/her efforts should be taken into account when determining the amount of the director's fixed annual fee.

235. It is advisable for the company to develop and publish a clear policy with regard to attendance of meetings of the board of directors; such policy should be included in a Regulation on the board of directors or a Regulation on Remuneration of the board members. The company may provide that payment of the full amount of an annual fixed fee shall be conditional on one's presence in person at a certain number of meetings of the board of directors. Such requirements may apply to the board members only if such requirements had been approved and disclosed by the company prior to the general meeting at which such board members were elected.

236. Use of any form of short-term incentives in respect of board members runs contrary to the principle of harmonization of financial interests of the directors and long-term interests of the shareholders. Short term incentives include any incentive programme which involves an evaluation of performance, pegging it to changes in the company's capitalisation, and payment of bonuses upon the results of a period of less than three years.

*4.2.2. Long-term ownership of shares in the company contributes most to aligning financial interests of board members with long-term interests of the company's shareholders. However, it is not recommended to make the right to dispose of shares dependent on the achievement by the company of certain performance results; nor should board members take part in the company's option plans.*

237. If the company has a practice of paying remuneration to the board members in the form of its shares, its policy of remuneration payable to the board members should set out clear and transparent rules regulating the ownership of shares by the board members. These rules should encourage them to increase their shareholdings and own the shares on a long-term basis, for example, by assuming an obligation whereby they would hold such shares for a certain minimum period of time or whereby they would own no less than a certain minimum number of

shares. From the standpoint of long-term motivation, it would be best to establish such rules that would allow a director to dispose of a majority of his/her shares in the company only upon the expiration of a certain period of time (at least one year) from the date when he/she ceases to be a member of the board of directors of the company.

238. The policy on the ownership of shares in the company by the board members should provide that the directors should undertake to refrain from using any hedging arrangements mitigating the motivational effect of long-term ownership of shares.

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

*4.2.3. It is not recommended to provide for any additional allowance or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances.*

240. It is not recommended to provide, in relation to board members (including in relation to non-executive and independent directors), for any additional allowance or compensations (severance payments) in the event of his/her early dismissal in connection with a change of control over the company or other circumstances.

**4.3. The system of remuneration due to members of the executive bodies and other key managers of the company should provide that their remuneration is dependent on the company's performance results and their personal contributions to the achievement thereof.**

*4.3.1. Remuneration due to members of the executive bodies and other key managers of the company should be set in such a way as to procure a reasonable and justified ratio between its fixed portion and its variable portion that is dependent on the company's performance results and employees' personal (individual) contributions to the achievement thereof.*

241. The company should set up a system of short-term and long-term incentives for members of the company's executive bodies and other key managers.

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

243. The remuneration committee should develop, with the help of independent consultants retained for this purpose as may be necessary, a set of customized key performance indicators which will form basis for the short-term motivation system.

The selected indicators should be relevant and related to the long-term strategy of the company, and their target values should be demanding. The committee shall present key components of the short-term incentive programme for approval by the board of directors of the company and subsequently procure the monitoring of the introduction and implementation of the programme.

244. It is recommended to evaluate the results of the short-term incentive programme for a year or for a period of one to three years, if required so by virtue of the nature or scope of the company's business, risks assumed thereby or a particular stage of its development.

245. The remuneration committee should consider and decide whether it is advisable for the company to put in place a long-term incentive programme, based on its business model, corporate values, business planning horizons, objectiveness of long-term indicators, expected efficiency of such incentives, and cost of implementation of the programme under the circumstances.

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

247. The company should put in place a procedure which would enable it, should it identify any facts of manipulation of reported indicators or other bad faith actions on the part of any members of its executive bodies and other key managers which were aimed solely at achieving formally any of the targets set forth in respect of the company's business and which were detrimental to the long-term interests of its shareholders, to ensure that any funds wrongfully obtained in such manner by such members or managers are repaid to it. The duty to repay any and all wrongfully obtained funds should be provided for in contracts to be entered into between the company and such persons.

*4.3.2. Companies whose shares are admitted to trading at organised markets are recommended to put in place a long-term incentive programme for members of the company's executive bodies and other key managers involving the company's shares (or options or other derivative financial instruments the underlying assets for which are the company's shares).*

248. Shares provided under the long-term incentive programme, if any, should be provided on a rateable basis, at one-year intervals.

The long-term incentive programme should provide that the right to dispose of shares or exercise options shall arise no earlier than in three years from the date when such shares were provided. In addition, the right to dispose of the same, upon the expiration of a respective period, should be made conditional on the achievement of certain targets 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 respective labour agreement, members of the company's executive bodies and other key managers must agree to refrain from disposing of their shares until the expiration of a three-year period from the date when such shares were first provided to them under the long-term incentive programme.

*4.3.3. The amount of severance pay (so-called "golden parachute") payable by the company in the event of early dismissal of a member of an executive body or other key manager at the initiative of the company, provided that there have been no bad faith actions on the part of such person, should not exceed two times the fixed portion of his/her annual remuneration.*

250. It is recommended that the amount of severance pay payable in the event of early dismissal and/or termination of employment agreements with members of the executive bodies and other key managers (so-called "golden parachutes") should not exceed two times their annual fixed fee.<sup>14</sup> To pay greater amounts of severance pay, one should provide strong justification for such payments; in addition, a resolution to this effect should be passed at a board meeting, and information about the reasons for such high fees should be disclosed.

## V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

*5.1.1. The board of directors should determine the principles of and approaches to creation of the risk management and internal control system in the company.*

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<sup>14</sup> This recommendation shall apply unless the legislation provides for a lesser amount of severance pay ("golden parachutes") payable upon early dismissal and/or termination of a respective labour agreement with members of the company's executive bodies and other key managers.

251. The company's board of directors shall be in charge of and responsible for determining the principles of and approaches to organisation of the system of risk management and internal control in the company.

252. When creating the risk management and internal control system, the company should use generally accepted concepts and practices in the area of risk management and internal control.<sup>15</sup>

253. The principles of and approaches to organisation of the system of risk management and internal control in the company should be determined based on the goals and tasks of such system which are summarised below:

- 1) achieving, with reasonable confidence, the objectives of the company;
- 2) ensuring the efficiency of the company's financial and economic activity and rational use of its resources;
- 3) identifying and managing risks;
- 4) ensuring that the assets of the company are preserved;
- 5) ensuring the completeness and accuracy of financial, accounting, statistical, managerial, and other reports; and
- 6) control over compliance with the law and the company's internal policies, regulations, and procedures.

254. To be efficient, a risk management and internal control system should be created at various levels of the company's management, with the account of the role of the respective level in the course of developing, approving, applying and evaluating the risk management and internal control system:

- 1) at the operational level - by putting in place and complying with required control procedures in the framework of operational processes; and
- 2) at the organisational level - by organisation of functional units coordinating the company's activity in the framework of its risk management and internal control system and ensuring its functioning (such as risk management, internal control, compliance control, quality control, etc.).

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

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<sup>15</sup> "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.



*5.1.2. The company's executive bodies should ensure the establishment and continuing operation of the efficient risk management and internal control system in the company.*

256. The executive bodies shall ensure the establishment and continuing operation of the efficient risk management and internal control system in the company and shall be responsible for fulfilment of decisions made by the board of directors in relation to organisation of the risk management and internal control system.

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

258. To ensure efficient operation of the risk management and internal control system, the company should create (designate) a separate structural unit(s) in charge of risk management and internal control that would perform the following tasks:

- 1) general coordination of risk management processes;
- 2) development of methodological documents in support of the risk management processes;
- 3) organisation of training for the company's employees on risk management and internal control issues;
- 4) review of the company's risk portfolio and making proposals regarding its response strategy and reallocation of resources in connection with risk management;
- 5) drawing up consolidated reports on risks;
- 6) prompt control over the risk management processes by the company's departments and, pursuant to the established procedure, by its controlled companies; and
- 7) preparation and provision of information to the board of directors and the company's executive bodies on the efficiency of the risk management processes and other matters provided for by the company's risk management and internal control policies.

*5.1.3. The company's risk management and internal control system should enable one to obtain an objective, fair and clear view of the current condition and prospects of the company, integrity and transparency of its accounts and reports, and reasonableness and acceptability of risks being assumed by the company.*

259. The risk management and internal control system enables the company to timely respond to any risks it faces. It is a set of organisational measures, methodologies, procedures, corporate culture rules and actions taken by the company with a view to achieving an optimal

balance between growth of the company's value, its profitability and risks, achieving its financial stability and efficient operation, ensuring the safety of its assets, complying with the law, the articles of association and internal documents of the company, and preparing reliable statements and accounts in due time.

260. It is recommended to provide, in the framework of the risk management and internal control system of the company, for a set of measures designed to prevent corruption and mitigate reputational risks and risks that the company may be subject to liability for bribery. The company should approve an anti-bribery policy setting forth measures aimed at developing elements of corporate culture, its organisational structure, as well as rules and procedures which would rule out corruption.

261. It is recommended to organise, in the framework of the risk management and internal control system of the company, a secure, confidential and affordable method (hotline) of informing the board of directors (or its audit committee) and the internal audit department of any breaches of legislation, internal procedures and the ethics code of the company by any of its employees and/or a member of a management body or a body of control over financial and economic activity of the company.

The hotline can be used to submit to the board of directors or the internal audit department any proposals on improvement of anti-corruption procedures and other internal control procedures. A person who has submitted respective information should be protected from any pressure whatsoever (including termination of his/her employment, persecution, or other forms of discrimination).

*5.1.4. The board of directors is recommended to take required and sufficient measures to procure that the existing risk management and internal control system of the company is consistent with the principles of and approaches to its creation as set forth by the board of directors and that it operates efficiently.*

262. At least once a year, the board of directors should review organisation, operation, and efficiency of the risk management and internal control system and, should this be necessary, make recommendations on its improvement. The results of such review of the system's efficiency should be communicated to the shareholders as part of the annual report of the company.

**5.2. To independently evaluate, on a regular basis, reliability and efficiency of the risk management and internal control system and corporate governance practices, the company should arrange for internal audits.**

*5.2.1. It is recommended that internal audits be carried out by a separate structural division (internal audit department) to be created by the company or through retaining an*

*independent third-party entity. To ensure the independence of the internal audit department, it should have separate lines of functional and administrative reporting. Functionally, the internal audit department should report to the board of directors, while from the administrative standpoint, it should report directly to the company's one-person executive body.*

263. The board of directors should find the best way to organize internal audits, whether by creating a separate structural unit (internal audit department) or by retaining an independent third-party provider.

264. Creation of the internal audit department is a preferred way to arrange for internal audits.

265. When choosing a third-party entity to be retained to carry out an internal audit, the company should make sure that such entity is independent and unbiased and that it and its personnel directly dealing with the company have required professional skills and competence.

266. The company should ensure the independence of the internal audit department, which is achieved by separating functional and structural lines of reporting.

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

- 1) approval by the board of directors (its audit committee) of a policy of internal auditing (a Regulation on Internal Audit) setting out the goals, objectives, and functions of the internal audit department;
- 2) approval by the board of directors (preliminary consideration by its audit committee) of a work plan and budget of the internal audit department;
- 3) receipt by the board of directors (its audit committee) of progress reports in relation to the work plan and information on how internal audits are carried out;
- 4) approval by the board of directors (preliminary consideration by its audit committee) of any decisions on appointment, dismissal of and remuneration to be paid to the head of the internal audit department; and
- 5) consideration by the board of directors (its audit committee) of significant limitations on the powers and authority of the internal audit department or other restrictions which might adversely affect the performance of the internal audit function.

268. In terms of administrative lines of reporting, it is recommended that the internal audit department should report to the company's one-person executive body, which means:

- 1) allocation of required funds in accordance with the approved budget of the internal audit department;
- 2) receiving progress reports on the internal audit department's operations;
- 3) provision of support when liaising with other units of the company; and
- 4) administration of policies and procedures of the internal audit department.

*5.2.2. When carrying out an internal audit, it is recommended to evaluate efficiency of the internal control system and the risk management system, as well as to evaluate corporate governance and apply generally accepted standards of internal auditing.*

322. Efficiency evaluation of the internal control system shall include:

- 1) checking whether or not the goals of business processes, projects, and structural units correspond to those of the company, as well as checking reliability and integrity of business processes (activity) and information systems, in particular, reliability of procedures designed to prevent any unlawful action, abuse, and corruption;
- 2) checking reliability of accounting, financial, statistical, managerial, and other accounts and statements, determining to what extent the results of business processes and performance results of the company's structural units corresponded to its target indicators and goals;
- 3) determining the adequacy of criteria set forth by the executive bodies with a view to analysing the extent of attaining (or failure to attain) existing goals;
- 4) identifying any weaknesses of the internal control system which have prevented or prevent the company from attaining its goals;
- 5) evaluating the results of implementation of measures meant to remedy breaches and weaknesses and improve the internal control system which are implemented by the company on all management levels;
- 6) checking efficiency and rationale of use of resources;
- 7) checking whether the company's assets are preserved; and
- 8) verifying compliance with the statutory requirements and those set forth by the company's articles of association and internal documents.

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

- 1) checking whether elements of the risk management system are well developed and sufficient for efficient risk management (in particular, its goals and tasks, infrastructure, organisation of processes, legal/regulatory framework and related methodologies, interaction between structural units in the framework of the risk management system, and reporting);
- 2) checking whether risks are fully identified and correctly evaluated by the company's management at all levels of its management; and
- 3) checking efficiency of various control procedures and other risk management measures, including the efficiency of use of resources that were allocated for this purpose; and
- 4) reviewing information on any realised risks (breaches, failures to attain certain set goals, or legal proceedings which were identified as a result of internal audits)).

271. Evaluation of corporate governance shall include checking:

- 1) compliance with ethical principles and corporate values of the company;

- 2) procedures for goal-setting by the company and for monitoring and control over their achievement;
- 3) adequacy of the existing level of legal/regulatory framework and information exchange procedures (including in relation to internal control and risk management issues) on all levels of the company's management, in particular, liaising with interested parties;
- 4) security of shareholder rights, including companies controlled by the company, and efficiency of relations with interested parties; and
- 5) procedures for disclosure of information about activities of the company and companies controlled thereby.

272. The internal audit tasks should be as follows:

- 1) assisting the executive bodies and employees of the company in developing and monitoring compliance with procedures and measures aimed at improving the risk management and internal control system and carrying out corporate governance in the company;
- 2) coordinating of work with the external auditors of the company and persons providing advisory services in the area of risk management, internal controls, and corporate governance;
- 3) carrying out internal audits of controlled companies pursuant to the established procedure;
- 4) preparing and submitting to the board of directors and the executive bodies reports on the results of the internal audit department's work (in particular, reports including information on material risks, deficiencies, results and efficiency of measures taken to address any identified deficiencies, results of implementation of the work plan of the internal audit department, results of evaluation of the actual condition, reliability, and efficiency of the risk management and internal control system and the corporate governance system); and
- 5) checking whether members of the company's executive bodies and its employees comply with the statutory provisions and internal policies of the company on insider information and prevention of corruption as well as with the requirements of the company's code of ethics.

273. When arranging for an internal audit, it is recommended to apply generally accepted standards of internal auditing.<sup>16</sup>

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<sup>16</sup> In particular, the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

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

### **6.1. The company and its activities should be transparent to its shareholders, investors, and other stakeholders.**

*6.1.1. The company should develop and implement an information policy enabling the company to efficiently exchange information with its shareholders, investors, and other stakeholders.*

274. The company's information policy should set out purposes and principles of information disclosure by the company, contain a list of information (in addition to that provided for by law) which the company undertakes to disclose as well as a procedure for its disclosure (specifying information channels to be used for disclosure and forms of such disclosure), time periods during which disclosed information should be accessible, a procedure for communication between members of the management bodies, officials, and employees of the company, on the one hand, and its shareholders and investors, as well as representatives of mass media and other stakeholders, on the other hand, and measures aimed to ensuring control over compliance with the company's information policy.

275. The company executive bodies shall be in charge of implementing its information policy. Its board of directors shall exercise control over compliance with the information policy.

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

- 1) setting up the company's website where it would post answers to frequently asked questions from shareholders and investors, a regularly updated calendar of its corporate events, and other information as may be useful for its shareholders and investors;
- 2) holding regular meetings with participation of members of the executive bodies and other key managers of the company, on the one hand, and analysts, on the other hand; and
- 3) organising regular presentations (including in the form of conference calls and webcasts) and meetings with members of the management bodies and other key employees of the company, in particular, in connection with disclosure (publication) of accounting (financial) statements of the company or in relation to major investment projects or plans for strategic development of the company.

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

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

- 1) information on the system and general principles of corporate governance applied by the company;
- 2) information on its executive bodies and their composition, specifying the names of the chairman of the collective executive body and his/her deputy and biographical details of each member of the executive bodies (including information about their age, education, skills, and experience) which should be sufficient to enable one to get an idea of such member's personal and professional qualities, as well as information on the positions they currently hold, or held during at least the last five years, in management bodies of other legal entities;
- 3) information on the composition of the board of directors, specifying the names of the chairman, his/her deputy and the senior independent director, as well as biographical details of each board member (including information about their age, education, current position/employment, skills, and experience) which should be sufficient to enable one to get an idea of such board member's personal and professional qualities, the date when each director was first elected to the board of directors, their membership on the boards of directors of other companies, information about whether they are independent directors, as well as information on the positions they currently hold, or held during at least the last five years, in management bodies of other legal entities;
- 4) information on the loss by a board member of his/her status of an independent director; and
- 5) information on the composition of the committees of the board of directors specifying the names of the chairman and independent directors in each of the committees.

278. It would correspond to the best corporate governance practices if a person that controls the company sets its plans in respect of the latter in a special memorandum which should be disclosed. The company should use its best efforts to implement such practice.

279. For example, such memorandum can contain information about any plans of the person that controls the company in respect of the shareholding in the company under such person's control, its intentions to nominate and elect a certain number of independent directors to the board of directors of the company, guarantees of compliance with market principles in the framework of business relations between the company and the person that controls it, other obligations of the controlling person relating to the protection of financial interests of minority shareholders, plans of the controlling person in respect of the company's business development, and its obligations in relation to the establishment of legal entities which compete with the company.

280. If a company adopts its own corporate governance code, it should disclose the same and provide explanations on the company's specifics because of which certain provisions of its code, if any, deviate from principles or recommendations set forth in this Code.

**6.2. The company should disclose, on a timely basis, full, updated and reliable information about itself so as to enable its shareholders and investors to make informed decisions.**

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

281. Disclosure of information is one of the most important tools of interaction of a company with its shareholders and other stakeholders (creditors, partners, customers, suppliers, communities, and governmental authorities). It contributes to establishing long-term relationships with such persons and gaining their trust, as well as helps the company increase its value and raise capital.

282. To implement the principle of regular, consistent and timely disclosure of information in the corporate governance practice:

- 1) one needs to ensure the continuity of the process of information disclosure. To do this, the company should determine a procedure ensuring coordination of work of all its structural units and departments which are involved in disclosure of information or whose activities may lead to the need to disclose information;
- 2) information that can materially affect the company's estimated value and the value of its securities should be disclosed as soon as possible;
- 3) if the company's securities are traded on foreign organized markets, including in the form of foreign depository receipts, equivalent material information should be simultaneously disclosed both in and outside the Russian Federation. Equivalent information disclosure means that where information is disclosed on an organised market in one country substantively similar information should be disclosed in another country where the company's securities are traded on an organised market; and
- 4) one should promptly provide information about the company's position regarding rumours or false information presenting a distorted view of the company's estimated value or the value of its securities, which presents a threat to the interests of its shareholders and investors.

283. To comply with the principle of accessibility of disclosed information, the company should use various channels and means of disclosure of information, particularly electronic ones, which may be used by a majority of its stakeholders. Channels for disseminating information should provide such stakeholders with free and easy access to the information disclosed by the



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

284. The company's website is the main channel for information disclosure by the company, so its website should contain information enabling one to form an objective view of material aspects of the company's activity.

285. If foreign investors hold a material share in the company's capital, the company should, along with disclosure of information in Russian, disclose most important information about itself (including an announcement of a general meeting to be held, its annual report and accounting (financial) statements) in a foreign language that is commonly used at the financial market, and provide free access thereto.

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

- 1) that disclosed information is readily understandable and consistent and that data are comparable (so that it would be possible to compare performance indicators of the company for different periods as well as to compare the company's indicators with those of similar companies);
- 2) information provided by the company is objective and balanced. When describing its activities, the company should not refrain from disclosing negative information about itself if such information is material to its shareholders and investors; and
- 3) neutrality of financial and other information disclosed by the company, that is, such disclosed information should be presented regardless of the interests of any persons or their groups. Information shall not be deemed to be neutral if its content or form is selected with a view to achieving certain results or effects.

*6.2.2. The company is advised against using a formalistic approach to information disclosure; it should disclose material information on its activities, even if disclosure of such information is not required by law.*

287. The company should disclose information not only about itself but also about any legal entities which are controlled by and are material to the company.<sup>17</sup> In particular, information on roles of each of the material legal entities controlled by the company, major areas of their business, functional relations between the key companies within the group, and

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<sup>17</sup> Legal entities controlled by and material to the company ("material controlled legal entities") shall mean any entities controlled by the company each of which accounts for at least five percent of the total value of its consolidated assets or at least five percent 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, materially affect the financial condition, financial performance results and changes in the financial position of the group of entities to which the companies and legal entities controlled thereby belong.

mechanisms that ensure lines of reporting and control within the group constitutes an important aspect of information disclosure within the group.

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

- 1) information about its mission, strategy, corporate values, objectives, and policies;
- 2) additional information on its financial activity and financial condition;
- 3) information on its equity structure; and
- 4) information on its social and environmental responsibility.

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

- 1) annual financial statements and interim financial statements for a reporting period of six months of the then current financial year prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as the IFRS), where the legislation does not require the company to draw up and disclose such financial statements. Its annual financial statements should be disclosed together with an auditor's report thereon, while its interim financial statements should be disclosed together with a report on the results of an auditor's review or an auditor's report. In addition, the company should procure that such an audit is carried out as soon as practicable;
- 2) notes made by the executive bodies of the company to its annual and interim financial statements, including analysis of the company's financial condition and results of its operations (MD&A), in particular, analysis of its profitability, financial stability, evaluation of changes in the composition and structure of its assets and liabilities, evaluation of current and prospective liquidity of its assets, description of the factors affecting the company's financial condition and trends that might affect the company's business in the future;
- 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;<sup>18</sup>
- 5) information on material transactions of the company and legal entities controlled by it (including related transactions entered into by the company and one and/or more legal entities controlled by it);

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<sup>18</sup> There is a materiality threshold for disclosure of information about the terms and conditions of one or more related transactions of an issuer and legal entities controlled thereby; the threshold is up to one percent of the value of the assets calculated in accordance with applicable international accounting standards. A detailed description of such a transaction means that the following information is disclosed: the date of the transaction, a description of its terms and conditions, the names of the counterparties to the transaction and the nature of their affiliation, grounds for deeming the transaction to be a related party transaction, grounds for entering into the transaction, the transaction amount/a percentage of the value of the assets that such amount represents.

- 6) information on a change in the extent of control over a legal entity controlled by the company which is material to the company; and
- 7) information about other significant events affecting financial and economic activities of the company and any of its controlled entities that are material to the company.

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

- 1) information on the number of its shareholders;
- 2) information on the number of voting shares by category (type) of shares and on the number of shares held by the company and or any legal entities controlled by it;
- 3) information on any persons who directly or indirectly own shares and/or may dispose of the votes attached to shares and/or are beneficiaries of shares in the company representing five or more percent of its share capital or its ordinary shares;
- 4) a statement by the company's executive bodies that the company is unaware of any existing shareholdings representing more than five percent of its shares other than those already disclosed by the company; and
- 5) information about possible or actual acquisition by certain shareholders of a degree of control disproportionate to their shareholdings in the share capital of the company, including on the basis of shareholder agreements or by virtue of existence of ordinary and preferred shares with different nominal values.

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

- 1) the company's social and environmental policy;
- 2) a report on its sustainable development of company drawn up in accordance with internationally recognized standards;<sup>19</sup> and
- 3) the results of a technical audit, an audit of quality control systems, and the results of certification of its quality management system in terms of its compliance with international standards.

*6.2.3 The company's annual report, as one of the most important tools of its information exchange with its shareholders and other stakeholders, should contain information enabling one to evaluate the company's performance results for the year.*

292. For an open joint stock company, its annual report is one of the most important forms of disclosing information about its activity. Not all joint stock companies are required to disclose their quarterly reports and information about material events (that is, they are not under the current information disclosure obligation). In addition, current information disclosure is designed to promptly provide any interested persons with data that can be important in the context of making investment decisions, while the annual report is meant to provide the shareholders and

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<sup>19</sup> See the Global Reporting Initiative (GRI).

investors of a company with a full picture of the company's performance and development in respect of a reporting year, by providing information in an aggregated form, which is meant to be used primarily by long-term investors. In this regard, the annual report should include annual financial statements prepared in accordance with the IFRS along with the auditor's report thereon.

293. Along with information provided for by law, an annual report should include the following additional information about the company and its performance results:

- 1) general information (including a brief history and the organisational chart of the company);
- 2) letters to the shareholders from the chairman of the board of directors and the one-person executive body of the company evaluating the company's performance during the year;
- 3) information on securities of the company, including on placement of its additional shares and changes in its equity during the year (changes in the composition of persons who may dispose, whether directly or indirectly, of at least five percent of the votes attached to the voting shares of the company);
- 4) information on the number of shares in the company held by it and the number of shares therein owned by legal entities controlled by the company;
- 5) key production indicators of the company;
- 6) key indicators of the company's accounting (financial) statements;
- 7) the company's actual performance results achieved during the year in comparison with its planned targets;
- 8) distribution of profits and its conformance to the dividend policy of the company;
- 9) investment projects and strategic objectives of the company;
- 10) prospects of the company's development (sales, productivity, controlled market share, revenue growth, profitability, financial leverage);
- 11) a summary of most significant transactions entered into by the company and legal entities controlled thereby (including related transactions, if any, entered into by the company and one and/or more legal entities controlled thereby) during the past year;
- 12) a description of the company's corporate governance system;
- 13) a description of the company's risk management and internal control system;
- 14) a description of the company's personnel and social policy and social development, protection of health of its employees, their training, and labour safety; and
- 15) data on the company's environmental protection policy and its environmental policy.

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

- 1) a report of the board of directors (including reports by its committees) for the year; in particular, such report should include information about the number of boards meetings held in person/without physical presence of the board members and about participation of each member of the board of directors in its meetings, a description

- of most important and most complex issues which were discussed at the meetings of the board of directors and its committees, and main recommendations made by the committees to the board of directors;
- 2) the results of evaluation by the audit committee of the efficiency of internal and external audits;
  - 3) a description of the procedures used to select the external auditors<sup>20</sup> 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 evaluation (self-evaluation) of the board of directors and, if an independent outside consultant was retained to evaluate the performance of the board of directors, information on such consultant, on whether it has any affiliation with the company, and on the results of its evaluation, as well as on positive changes in the board of directors' work resulting from a previous evaluation, if any;
  - 5) information about any shares in the company which are owned, directly or indirectly, by members of the board of directors and/or executive bodies of the company;
  - 6) information on whether any members of the board of directors and the executive bodies have conflicts of interest (including those associated with their participation in the management bodies of any competitors the company);
  - 7) a description of the system of remuneration of board members, including the amount of individual remuneration payable upon the results of the year to each board member (with a breakdown between their basic fee, additional remuneration for the chairmanship in the board of directors and for the chairmanship/membership in committees of the board of directors, the amount of participation in the long-term incentive programme, the amount of participation of each board member in an option plan, if any), reimbursement of expenses associated with their participation in the board of directors, and costs incurred by the company in connection with liability insurance for its directors in their capacities of members of the management bodies;
  - 8) a description of the principles and approaches used to motivate key managers, a description of all components of remuneration paid to key managers (for example, a fixed fee, short-term and long-term incentive programmes, benefits, pension contributions), target proportions between various components of remuneration paid to key managers, a description of performance indicators which serve as basis for each of such remuneration components and their target levels, a general description of the company's policy with respect to severance allowances for key managers (in particular, the maximum amount of such severance allowances);
  - 9) information on the total remuneration for the year:

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<sup>20</sup> The company's auditor confirming reliability of its financial statements in accordance with the Russian Accounting Standards as well as its auditor confirming reliability of its consolidated financial statements in accordance with the International Financial Reporting Standards.

- a) in respect of a group of at least five members of the executive bodies and other key managers of the company who receive the largest amounts of remuneration, broken down by type of remuneration; and
  - b) in respect of all members of the executive bodies and other key managers of the company who are subject to the company's remuneration policy, broken down by type of remuneration;
- 10) information on the remuneration of the one-person executive body for the year, which he/she has received or is to receive from the company (or a legal entity forming part of a group of entities which includes the company) with a breakdown by type of remuneration, both for carrying out his/her duties of the one-person executive body and otherwise;
  - 11) information on loans (credits) provided by the company (or a legal entity forming part of a group of entities which includes the company) to any members of its board of directors and executive bodies and information on whether or not terms and conditions of such loans (credits) corresponded to the then existing market terms; and
  - 12) information on compliance by the company with the major principles and recommendations of this Code, and, if certain principles or recommendations are not complied with, detailed explanations of the reasons for the company's failure to do so.

**6.3. The company should 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 should not be unreasonably burdensome.*

295. The shareholders' right of access to information and documents of the company, including those that are not disclosed by the latter, constitutes, apart from everything else, one of the most important elements of a mechanism designed to ensure responsibility of the company's controlling persons and members of its management bodies which enable its shareholders to justify any claims against them for recovery of losses inflicted on the company.

The company should set forth a procedure for providing its shareholders with access to its information and documents in its information policy. Such procedure should not be burdensome for the shareholders.

The legislation sets different rules regarding the scope of a shareholder's right to access information and documents of the company depending on the number of voting shares in the company owned by such shareholder. Shareholders having rights of equal scope should be provided with equal opportunities to access the company's documents.

296. The information policy of the company should provide that shareholders may obtain information that they need about any legal entities controlled by the company. To provide such

information to shareholders, the company must take actions required to obtain the same from a respective legal entity controlled by the company.

297. If a shareholder's request to provide him with access to documents or provide to him copies of documents contains any typos or other insignificant flaws which prevent the company from fulfilling such request, the company should inform the shareholder accordingly, so that he would be able to eliminate them.

298. The company should not artificially overvalue its costs of making and sending copies of any of the company's documents.

299. The company should strive, with the account of technical means available to it, to put in place a procedure for sending shareholder requests for provision of access to its information and documents which would be convenient for the shareholders (in particular, it should establish rules governing the use of modern means of communication and electronic information exchange).

300. The company should provide information and documents to its shareholders in such a way and in such a form as would be convenient for them, in particular, using electronic media and modern means of communications (taking account of wishes of shareholders who have requested such documents and information regarding their preferred form of obtaining the same, confirmation of correctness of copies of documents and their preferred method of delivery of the same).

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

301. The specifics of activities of a company with a large number of shareholders do not prevent the company from taking special measures to protect information that is not publicly available.

In order to achieve a balance between the interests of individual shareholders and its own interests, the company's information policy can provide for a list of information that constitutes a commercial or professional secret or otherwise falls within the category of confidential information. Access to such information may be provided to a shareholder on the condition that the shareholder is advised of the confidential nature of the information and assumes the obligation to maintain its confidentiality and provided further 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 bodies or board of directors to object to a request from a shareholder if, from the

company's point of view, the nature and scope of the information requested by the shareholder suggests that the shareholder abuses the right to access to information of the company. Such objections may not be arbitrary and biased and must be consistent with the principle of equality of conditions for the shareholders, whereby under equal circumstances shareholders must be treated equally.

## VII. MATERIAL CORPORATE ACTIONS

**7.1. Any 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") should be taken on fair terms and conditions ensuring that the rights and interests of the shareholders as well as other stakeholders are observed.**

*7.1.1. Material corporate actions shall be deemed to include reorganisation of the company, acquisition of 30 or more percent of its voting shares (takeover), entering by the company into any material transactions, increasing or decreasing its share capital, listing and delisting of its shares, as well as other actions which might result in material changes in rights of its shareholders or violation of their interests. It is recommended to include in the company's articles of association a list of (criteria for identifying) transactions or other actions falling within the category of material corporate actions and provide therein that decisions on any such actions should fall within the jurisdiction of the company's board of directors.*

*7.1.2. The board of directors should play a key role in passing resolutions or making recommendations relating to material corporate actions; for that purpose, it should rely on opinions of the company's independent directors.*

*7.1.3. When taking any material corporate actions which would affect rights or legitimate interests of the company's shareholders, equal terms and conditions should be ensured for all of the shareholders; if statutory mechanisms designed to protect the shareholder rights prove to be insufficient for that purpose, additional measures should be taken with a view to protecting the rights and legitimate interests of the company's shareholders. In such instances, the company should not only seek to comply with the formal requirements of law but should also be guided by the principles of corporate governance set out in this Code.*

**7.2. The company should have in place such a procedure for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and that would also guarantee that the shareholder rights are observed and duly protected in the course of taking such actions.**



*7.2.1. When disclosing information about material corporate actions, it is recommended to give explanations concerning reasons for, conditions and consequences of such actions.*

*7.2.2. Rules and procedures in relation to material corporate actions taken by the company should be set out in its internal documents.*

303. Material corporate actions shall include, primarily, reorganisation of the company, acquisition of 30 or more percent of its voting shares (takeover), entering by the company into any major transactions or other material transactions (each, a “material transaction”), increasing its share capital, as well as listing and delisting of its shares. The articles of association of the company may determine whether any other action taken by the company (in particular, a change in its principal line of business, a change in its name, ensuring the protection of its intellectual property, acquisition by the company of a license or renunciation of a licence) shall be deemed to be material and may set forth materiality thresholds in respect of transactions entered into by the company or any legal entity controlled thereby. For that purpose, the board of directors should deem a particular corporate action to be material if the independent directors advise it to do so.

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

305. It is clear that every material corporate action has certain specifics, both in terms of its effect on the position of the company and rights of its shareholders, and in terms of the rules and procedures for taking the same. In view of the foregoing, further comments to the principles and recommendations set out in this Section are provided below in respect of particular types of material corporate actions.

### **Material transactions entered into by the company**

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

307. The company’s articles of association should provide for mechanisms whereby consideration of any transactions that do not meet the criteria set forth by the law in respect of major transactions but are still material to the company would fall within the jurisdiction of the board of directors. This can be achieved by extending the statutory procedure for the entering by the company into major transactions to include such material transactions and/or by providing that their consideration falls within the jurisdiction of the board of directors and that a resolution to approve such a transaction should be passed by at least three-quarters majority vote or by a

majority votes of all elected (incumbent) board members. Such transactions should include, at the very least, the following:

- 1) any sale of shares (interests) in any legal entity controlled by the company which is material to the latter, where, as a result of such transaction, the company would lose control over such legal entity;
- 2) any transaction with property of the company or any legal entity controlled thereby (including related transactions, if any, entered into by the company and one and/or more legal entities controlled thereby) whose value exceeds a threshold amount specified in the company's articles of association or which is material to the company's business operations; and
- 3) establishment of a legal entity controlled by the company and having material significance for the latter's business.

308. In addition, the company's articles of association should extend the statutory procedure for approval of major transactions to include transactions which fall both within the category of major transactions and within the category of interested party transactions but which are not required under the law to be approved as interested party transactions.

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

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

311. It is recommended that the board should exercise control not only over material transactions of the company but also over material transactions entered into by any legal entities controlled by the company, by including a list thereof in the company's articles of association or internal document.

312. In determining the materiality of a transaction entered into by a legal entity belonging to the group of entities which includes the company and legal entities controlled thereby,<sup>21</sup> it is recommended to be guided by the following criteria:

- 1) the proportion between the value of assets to be acquired or disposed of pursuant to the transaction in question and the book value of the assets of the group of entities which includes the company and legal entities controlled thereby; and
- 2) the proportion between the value of assets to be acquired or disposed of pursuant to the transaction and the market capitalization of the company.

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<sup>21</sup> When determining whether a particular transaction provided for by this paragraph is a material one, one should also take account of a series of related transactions, if any, entered into by one or more persons from the group of entities which includes the company and legal entities controlled thereby.

313. Determining the value of property to be acquired or disposed of pursuant to a major transaction or an interested party transaction falls within the jurisdiction of the company's board of directors. Under the law, it is not required to retain an independent appraiser to determine the market value of such property. However, in such cases, where one needs to determine the value of property to be acquired or disposed of pursuant to a major transaction or a material interested party transaction, the board of directors is recommended to retain an independent appraiser with an established impeccable reputation in the market and appraisal experience in the respective area or to provide a reason for not doing so.

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

315. Shares must be repurchased or redeemed, as the case may be, by the company at a fair price determined by an independent appraiser with an established impeccable reputation in the market and appraisal experience in the respective area, with the account of the weighted average price of the shares over a reasonable period of time, without accounting for the effect of a respective transaction to be entered into by the company (including without accounting for any change in the price of the shares in connection with dissemination of information on the company's entering into the transaction), and without accounting for a discount for selling shares as part of a non-controlling block of shares.

316. For that purpose, when determining the procedure for acquisition of shares in the company by any legal entities controlled thereby, all of the company's shareholders owning shares of a respective category (type) should be provided with equal opportunities to sell their shares in the company to such controlled legal entity in proportion to their blocks of respective shares in the company on equal terms and conditions.

317. A decision on disposal of treasury or quasi-treasury shares by the company should fall, by virtue of applicable corporate control mechanisms, within the jurisdiction of its board of directors. For that purpose, the procedure for disposing of such shares should provide all of the company's shareholders owning shares of a respective category (type) with equal opportunities to purchase shares being disposed in proportion to their blocks of respective shares in the company on equal terms and conditions.

318. It is advisable for the company to put in place procedures pursuant to which the board of directors would consider, on a preliminary basis, and approve any transactions entered into by any third parties on their own behalf, but for the account of the company, where such

transactions, if they were to be entered into by the company, would fall within the category of major transactions or interested party transactions.

319. The company's articles of association should expand a list of grounds on which members of the company's board of directors as well as other persons referred to in respective laws, are deemed to be interested in transactions of the company. When expanding the list of such grounds, it is recommended to evaluate actual affiliation relations between respective persons. For example, it is recommended to presume that if a member of the board of directors of the company or his/her affiliate is an employee of a trading partner of the company who has been vested with managerial powers but is not formally a member of the management bodies of such trading partner, such board member (affiliate) should also be deemed interested in a transaction of the company with such trading partner.

320. A material transaction in which the company's controlling person is interested should be considered, prior to their consideration at a board meeting (including in the event that such transaction is referred to be considered by the company's general meeting) and on a preliminary basis, by the independent directors of the company. A document setting out their opinion regarding such transaction should form part of materials to be provided for the respective board meeting.

321. When exercising control over transactions entered into by a legal entity controlled by the company, the latter's board of directors is recommended to evaluate possible signs of interest in such transactions on the part of any members of the company's management bodies or persons controlling the company.

322. In practice, it often happens that at a general meeting, which considers whether to approve an interested party transaction, shareholders that are not formally interested in the transaction but are actually interested therein by virtue of certain elements of affiliation, would vote on its approval. A similar situation may occur when a meeting of the board of directors considers an interested party transaction. However, such approval of an interested party transaction often constitutes the beginning of a corporate conflict in the company.

323. If there is no formal interest but there exists a conflict of interest or other actual interest in a transaction to be approved, in accordance with good corporate governance practices, a respective shareholder or member of the company's board of directors who has such actual interest in the transaction, should refrain from taking part in a vote on approval of the transaction in question.

If such actual interest in a transaction is identified prior to its approval, the board of directors should describe respective facts and circumstances in materials on such transaction and recommend that any shareholder or board member who has such actual interest in the transaction should refrain from taking part in a vote on its approval.

## **Reorganisation of the company**

324. The board of directors should be actively involved in setting the terms and conditions of reorganisation of the company.

325. The board of directors should resolve to refer a proposal on reorganisation of the company to the shareholders meeting for consideration only if the board of directors is convinced that the reorganisation is necessary and its terms and conditions are acceptable.

326. When considering whether the reorganisation is acceptable, the board of directors should evaluate its terms and conditions based on whether they are consistent with the interests of the shareholders, including those owning small stakes in the company, and determine whether or not conversion ratios resulting from the reorganisation are just and fair.

327. For the purpose of efficient analysis of these aspects of reorganisation, setting its terms and conditions, and interaction with the executive bodies in connection with the reorganisation and nomination of an appraiser on the basis of whose report the conversion ratios are to be approved, the board of directors is recommended to form a special temporary committee consisting of board members. If proposed reorganisation is an interested-party reorganisation,<sup>22</sup> such committee should include solely independent directors, which would enable it to properly assess whether the terms and conditions of such reorganisation are fair.

A document setting out recommendations of such committee should form part of materials to be provided for the board meeting at which the proposed reorganisation is to be considered. It is advisable to include [a document setting out] the independent directors' opinion on any matters relating to the terms and conditions of the reorganisation in the set of materials to be provided in connection with the general meeting whose agenda includes such proposed reorganisation.

328. The board of directors and, in particular, independent directors must be available to communicate with shareholders in the course of preparation of the board of directors' decision as to whether the proposal on reorganisation should be referred for consideration to the general meeting.

329. Before the approval by the board of directors of draft documents relating to a proposed reorganisation and before the issue is referred for consideration to the general meeting, the board members, including independent directors, should be given the opportunity to participate in negotiations on the reorganisation and organize discussion of the progress of the negotiations by the board of directors and/or its committees.

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<sup>22</sup> For the purpose of this Code, an interested-party reorganisation shall mean a reorganisation in the form of merger or accession (or involving merger or accession as one of its stages) whereby a person(s) controlling the company is (are) concurrently a person(s) that control(s) one or more legal entities taking part in the reorganisation.

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

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

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

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

334. If, as a result of reorganisation of the company whose shares have been listed, it ceases to conduct its business (or if as a result thereof the company divests substantial part of its assets), such reorganisation should be carried out in such a way that, upon its completion, the shareholders of the company would receive shares in other companies which have been or are being admitted to organised markets.

### **Takeover of the company**

335. The management bodies of the company should monitor the strict compliance by the company of the legal requirements applicable if it takes over another company or if it is being taken over, including the requirements to a respective voluntary offer, mandatory offer, notice of the right to require redemption of securities of the company, as well as a request of a majority shareholder regarding compulsory redemption of the company's securities.

336. The board of directors should be actively involved in the procedures relating to the takeover of the company; in particular, it should monitor and, if possible, prevent attempts to carry out a takeover of the company without submitting a voluntary or mandatory offer, liaise

with the company's controlling person so that the latter would take measures designed to ensure that the acquirer of shares will properly perform its duty to submit the mandatory offer as provided for by law.

337. In particular, the board of directors should monitor any and all indirect acquisitions, acquisitions by means of purchasing depositary receipts that evidence shares in the company, acquisitions which are carried out in a concerted fashion by several persons who have no formal connections with each other, without submitting a voluntary offer.

338. The board of directors should also analyse the reasons for one's failure to submit a mandatory offer given by the person who effectuates such a takeover, and check whether they comply with the law, with the account of the principles and recommendations set out in this Code. In particular, the refusal to make an offer to the shareholders based on a transfer of shares in the company between affiliated persons who are not under common control should be considered to be a bad faith practice. Likewise, the refusal to submit a mandatory offer should be viewed as a bad faith practice if such refusal is claimed to be based on a decrease in the size of a shareholding below a respective threshold.

339. If it turns out that takeover of the company took place without submitting a voluntary or mandatory offer, the board of directors should, in particular, propose that the person effecting such takeover or the persons jointly effecting the same perform their duty to submit the mandatory offer or, alternatively, board of directors itself should submit the voluntary offer meeting the requirements set forth in respect of mandatory offers.

340. The board of directors should check the terms and conditions of a voluntary or mandatory offer submitted to the company's shareholders, as well as the grounds and conditions for compulsory redemption of shares [owned by the company's shareholders], including the fairness of the repurchase (redemption) price of shares [owned by the company's shareholders] and the feasibility of acceptance of a public offer by the shareholders. The board of directors of the company must communicate its opinion on the company's takeover and related procedures to the shareholders.

341. The board of directors is encouraged to provide assistance so as procure that a person submitting a mandatory offer would obtain all necessary permits for the acquisition of a respective block of shares in the company well in advance and, thus, that the acceptance of the mandatory offer by the shareholders would not violate the requirements of the law in respect of preliminary approval of the acquisition of a shareholding in the company. In particular, the company should disclose as to whether any requirements for preliminary approval of acquisition apply to the acquisition of a large block of its shares.<sup>23</sup>

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<sup>23</sup> For example, the requirements of the Federal Law "On Procedure for Making Foreign Investments in Business Entities of Strategic Importance for National Defence and State Security."

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

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

344. The board of directors should also monitor the compliance by the company, when taking over another company, with the law, with the account of the principles and recommendations set out in this Code (in particular, the company should submit an offer to the shareholders of the company being taken over thereby in case of an indirect takeover, an acquisition by means of purchasing depositary receipts that evidence shares in the company being taken over, an acquisition which is carried out in a concerted fashion by several persons who have no formal connections with each other).

345. The company or any legal entity controlled thereby should not provide financial assistance to a person that is taking over the company, whether directly or not. Such recommendation applies to any financial assistance provided with a view to reducing or releasing of obligations incurred by the person that carries out the takeover in connection with its takeover of the company.

### **Listing and delisting of the company's shares**

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

347. When considering issues relating to a delisting of the company's securities, the board of directors should ensure that the respective decision is made in a fully transparent manner; in particular, it should ensure that the holders of the relevant securities are provided with information about the grounds for such decision and the risks of delisting assumed by the securities holders and protect their rights in connection with the delisting process.

348. Good corporate governance practices relating to a delisting of shares (or securities convertible into shares) of a company imply that the controlling person of the company should make a voluntary offer on fair terms and conditions and that subsequently relevant securities should be redeemed on a mandatory basis (if the number of acquired shares allows to do so) and delisted upon completion of the above procedures.



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

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

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

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

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

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

356. A split, consolidation or conversion of shares by the company shall be allowed only provided that this does not adversely affect the rights of its shareholders (in particular, it shall not be allowed to effectuate a split, consolidation or conversion of shares for the purpose of re-distribution or changing the extent of corporate control or take any actions that would adversely affect the dividend rights of the shareholders or reduce their share in the share capital of the company).

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