

How to Use this Manual

This Manual has been divided into and is published in six parts:

- Part I: Corporate Governance Introduced
- Part II: Good Board Practices
- Part III: Shareholder Rights
- Part IV: Disclosure and Transparency
- Part V: Special Focus Section
- Part VI: Annexes

The first four parts contain chapters that focus on core corporate governance issues, such as a company's board structure, information disclosure practices, and shareholder rights. Part five focuses on corporate governance issues of particular importance in the Russian context, namely corporate governance concerns during a company's reorganization, within holding structures, and relating to enforcement. Part six, finally, offers practical tools in the form of model documents, for example company codes, by-laws, and contracts. All issues are closely examined through Russian law and regulations, the FCSM Code and, when applicable, internationally recognized best practices.

While it is recommended to read the entire Manual to gain a full understanding of the corporate governance framework in Russia, it is not necessary to read all the chapters in chronological order. The reader is encouraged to begin with a topic of interest and follow the links and references included in the text for guidance to other chapters.

Examples, illustrations, and checklists are included to make the Manual clear and useful. The following tools will reappear at various intervals in the text:

- The **Chairman's Checklist** is intended to help the Chairman of the Supervisory Board focus Board discussions on key corporate governance issues faced by companies.

The Chairman's Checklist

- ✓ Does the company have a clear distribution of authority between shareholders, Supervisory Board members and managers? Has the company properly established an Executive Board
- ✓ Do the General Director and all members of the Executive Board possess the knowledge and skills necessary to manage the company? Is there a transparent division of tasks among the members of the Executive Board, such as operations, marketing, finance, legal, etc.?

- **Best Practices** summarizes the main provisions of the FCSM Code, the OECD Principles of Corporate Governance, as well as leading national standards from other countries.

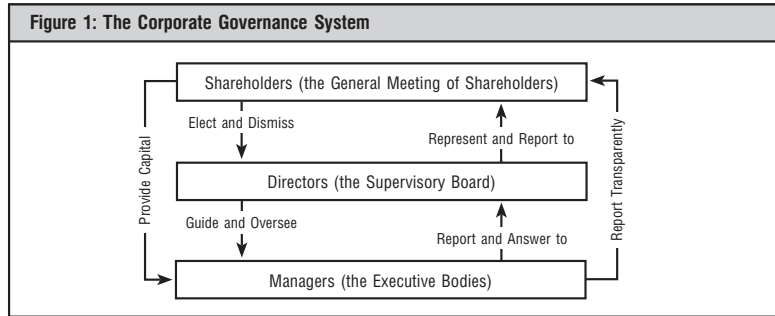
Best Practices: Independent directors can make a substantial contribution to important decisions of the company, especially the evaluation of executive performance and in the resolution of conflicts of interest. Independent Board members give investors additional confidence that the Supervisory Board's deliberations will be free of obvious bias.¹⁰¹ Companies are advised to disclose information about independent Board members in the annual report.¹⁰²

- **Company Practices in Russia** illustrates how Russian companies currently approach corporate governance issues. It highlights red flags, i.e. common corporate governance abuses that occur, and model company practices in good corporate governance.

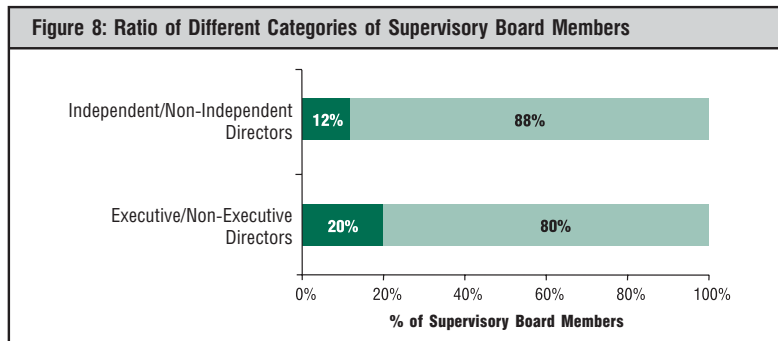
Company Practices in Russia: Many Russian companies are controlled by a single shareholder or group of shareholders that are well informed about the affairs of the company and able to closely monitor the company's management. On the other hand, the remaining ownership is often widely dispersed and many of these, often minority, shareholders lack the resources and information to effectively monitor management and defend themselves against the potential abuses of large shareholders. In these types of companies, independent directors take on special importance.

The Russia Corporate Governance Manual

- **Figures, tables, and other illustrations** are included to illustrate key concepts.



Source: IFC, March 2004



Source: IFC, Regional Survey on Corporate Governance Practices, August 2003

- **Mini-cases** illustrate abstract concepts and show the real problems that companies face.

Mini-Case 1: A company has 2,500 minority shareholders holding a total of 3,000 voting shares and one majority shareholder holding a total of 12,000 voting shares. The Supervisory Board has nine members. The 2,500 shareholders hold 27,000 votes (3,000 shares × 9 votes) and the majority shareholder has 108,000 votes (12,000 shares × 9 votes). The total number of votes that all shareholders can use to elect the candidates to the Supervisory Board is 135,000 votes (9 votes × 15,000 shares). The nine candidates that receive the most votes are elected to the Supervisory Board.

Preface

- **Detailed references to law and regulation** guide the reader to original texts.
- The **IFC RCGP Corporate Governance Progression Matrix for Russian Companies** is included in Annex 1 to allow the reader to assess the level of corporate governance in Russian companies, develop areas for improvement, and measure progress made.

| | | Level 1: Compliance with legal and regulatory requirements | Level 2: Initial steps to improve corporate governance are made | Level 3: Advanced corporate governance system | Level 4: Corporate Governance leadership |
|--------------------|------------------|---|---|---|--|
| I Commitment to CG | Legal Compliance | ✓ The company has developed and follows a valid charter according to Russian legislation with provisions on the protection of shareholder rights and the equitable treatment of shareholders, distribution of authority between the General Meeting of Shareholders (GMS), the Supervisory Board and executive bodies, and information disclosure and transparency of the company's activities. | ✓ The company has developed and follows by-laws regulating the activities and working procedures of the corporate bodies approved by the GMS (the GMS, the Supervisory Board, the Executive Board, and Revision Commission). | ✓ The company has developed and follows a comprehensive set of internal documents that are recommended by the Federal Commission of the Securities Market Code of Corporate Conduct (FCSM Code) and are approved by the Supervisory Board. | ✓ The company has adopted a company level corporate governance code and code of ethics, and follows internationally recognized best practices of corporate governance. |
| | Company Practice | ✓ n/a | <ul style="list-style-type: none"> ✓ The company has a person/officer responsible for the implementation of corporate governance policies in the company. ✓ The company follows the main recommendations of the FCSM Code and discloses information to the FCSM on a comply or explain basis. | <ul style="list-style-type: none"> ✓ The company has a designated office(s) responsible only for ensuring the development of, compliance with, and periodic review of corporate governance policies and practices in the company (for example, the Corporate Secretary). ✓ The company has an explicit and clearly stated plan in place to improve its governance practices and has taken initial steps to implement this plan. | <ul style="list-style-type: none"> ✓ The company has formally established a committee of the Supervisory Board responsible for supervising the governance policies and practices of the company (e.g. Corporate Governance Committee). ✓ The Company is publicly recognized as a national leader and among the global leaders in corporate governance. |