

# Part 1

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# **Corporate Governance** Introduced

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## Annex 1

## THE IFC CORPORATE GOVERNANCE PROGRESSION MATRIX FOR RUSSIAN COMPANIES

	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	<p>✓ 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.</p> <p>✓ n/a</p>	<p>✓ The company has developed and follows by-laws regulating the activities and working procedures of the corporate bodies approved by the GMS (the GMS, Supervisory Board, Executive Board, and Revision Commission).</p> <p>✓ The company has a person/officer responsible for the implementation of corporate governance policies in the company.</p> <p>✓ The company follows the main recommendations of the FCSM Code and discloses information to the FCSM on a "comply or explain" basis.</p>	<p>✓ 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.</p> <p>✓ The company has a designated officer(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).</p> <p>✓ 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.</p>	<p>✓ The company has adopted a company level corporate governance code and code of ethics, and follows internationally recognized best practices of corporate governance.</p> <p>✓ 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).</p> <p>✓ The Company is publicly recognized as a national leader and among the global leaders in corporate governance.</p>
	Meetings	<p>✓ The company has established the Supervisory Board in accordance with legal requirements.</p> <p>✓ The Supervisory Board meets at least once a year.</p>	<p>✓ Detailed procedures for calling and conducting Supervisory Board meetings are clearly defined in by-laws.</p> <p>✓ The Supervisory Board meets at least four times a year.</p> <p>✓ The Supervisory Board keeps minutes of its meetings that include voting results on an individual basis.</p>	<p>✓ The Supervisory Board meets regularly (at least once every six weeks as recommended by the FCSM Code).</p>

## Annex 1. The IFC Corporate Governance Progression Matrix for Russian Companies

II. Supervisory Board and General Director/Executive Board	Composition/Independence	Committees	Remuneration	Expertise	Executive Board
<p>✓ Executive Board members do not exceed 25% of the total number of Supervisory Board members.</p>	<p>✓ The charter or the by-laws require the proposing shareholder and other shareholders to provide additional information to the company on the proposed candidates to the Supervisory Board.</p> <p>✓ The number of Supervisory Board members is set in the charter and not by decision of the GMS.</p> <p>✓ The majority of Supervisory Board members are non-executive (outside) directors.</p>	<p>✓ The Supervisory Board has an Audit Committee.</p> <p>✓ Supervisory Board members receive an annual retainer in accordance with a contract signed with the company.</p>	<p>✓ The composition of the Supervisory Board (competencies/skill mix) is adequate for oversight duties and development of company direction and strategy.</p> <p>✓ The Supervisory Board has an independent director, who meets the definition of the FCSM Code.</p>	<p>✓ The company's Supervisory Board includes an experienced financial expert who is a non-executive director.</p> <p>✓ At least 25% or not less than three members of the Supervisory Board are independent directors.</p>	
<p>✓ n/a</p>	<p>✓ The Supervisory Board has an Audit Committee that is chaired by an independent director and is entirely composed of non-executive directors.</p> <p>✓ The Supervisory Board has at least one other committee (e.g. on Nominations and Remuneration).</p>	<p>✓ The annual retainer of non-executives is linked to meeting attendance and additional responsibilities, such as chairmanship and/or work on committees.</p> <p>✓ The company publicly discloses the remuneration of each director on an aggregate basis.</p>	<p>✓ The company's Supervisory Board has other specialized committees as recommended by the FCSM Code or international best practice (e.g. on Strategic Planning, Conflict Resolution).</p> <p>✓ The Audit and Remuneration Committees are composed entirely of independent directors.</p>	<p>✓ The company publicly discloses the remuneration of each director on an individual basis.</p>	
<p>✓ n/a</p>	<p>✓ The company offers access to training programs to its Supervisory Board and executive bodies.</p>	<p>✓ The company conducts regular training for members of the Supervisory Board and executive bodies on corporate governance.</p>	<p>✓ The Supervisory Board conducts regular self-evaluations on a collective and individual basis.</p>	<p>✓ The Supervisory Board conducts regular self-evaluations on a collective and individual basis.</p>	
<p>✓ The company has properly appointed the General Director and Executive Board in accordance with Russian legislation.</p>	<p>✓ The General Director and/or the Executive Board report to the Supervisory Board at least once a year.</p> <p>✓ The working procedures of the Executive Board are clearly specified in the by-laws approved by the GMS.</p> <p>✓ The Executive Board meets on regular basis.</p>	<p>✓ The company has developed a procedure for periodic reports (information briefs) of the General Director and/or Executive Board to the Supervisory Board.</p> <p>✓ The company has a succession plan in place that outlines how it will deal with the loss of senior executives should this occur.</p>	<p>✓ The company has adopted an executive remuneration policy, consisting of a fixed and variable component, inline with internationally recognized principles and practices.</p>	<p>✓ The Company has adopted an executive remuneration policy, consisting of a fixed and variable component, inline with internationally recognized principles and practices.</p>	

		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
III. Disclosure and Transparency	General	<ul style="list-style-type: none"> <li>✓ The company meets the main requirements of legislation on issuer reporting by preparing and publishing regular quarterly reports, material information (facts), reports, etc.</li> <li>✓ Shareholders are provided with information (actual documents) upon their request and as specified by legislation.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The company discloses information on:                             <ul style="list-style-type: none"> <li>— affiliated parties and the affiliation of Supervisory Board members;</li> <li>— extraordinary and related party transactions;</li> <li>— Supervisory Board meetings; and</li> <li>— the GMS.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ The company discloses information on the remuneration of the General Director and members of the Executive Board.</li> <li>✓ The company publishes a comprehensive annual report that includes a corporate governance section.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The company discloses its corporate governance practices and other material information on the Internet in a timely manner.</li> </ul>
	Internal Control	<ul style="list-style-type: none"> <li>✓ The company has a Revision Commission that meets at least once a year.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The Revision Commission's scope of work goes beyond legal requirements and is set forth in the by-laws.</li> <li>✓ The Revision Commission meets regularly (at least four times a year).</li> </ul>	<ul style="list-style-type: none"> <li>✓ The Revision Commission consists of independent members and at least one member is an experienced financial expert.</li> <li>✓ The company has a risk management and an internal control system that reports to the General Director and/or Executive Board.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The results of the work of the Revision Commission are disclosed to shareholders.</li> <li>✓ The company has a risk management and an internal control system that reports to the Supervisory Board.</li> <li>✓ The company has an Internal Auditor that reports to the Supervisory Board.</li> </ul>
	Financials	<ul style="list-style-type: none"> <li>✓ The company keeps records and prepares its financial statements in accordance with Russian Accounting Standards.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The company discloses its financial statements to the public.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The company keeps records and prepares its financial statements in accordance with IFRS or U.S. GAAP.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The company's financial statements prepared in accordance with IFRS or U.S. GAAP are properly disclosed.</li> </ul>
	External Audit	<ul style="list-style-type: none"> <li>✓ The company's financial statements are audited annually by an External Auditor.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The company's External Auditor is independent of the management and major shareholders of the company</li> </ul>	<ul style="list-style-type: none"> <li>✓ The company's External Auditor is a publicly recognized independent auditing firm.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The company periodically rotates its audit partner.</li> <li>✓ The remuneration of the External Auditor is disclosed to shareholders.</li> </ul>
	Ownership	<ul style="list-style-type: none"> <li>✓ n/a</li> </ul>	<ul style="list-style-type: none"> <li>✓ The beneficial controlling shareholder (50%+1 share) can be identified by the information disclosed by the company.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The beneficial controlling and blocking shareholders can be identified by the information disclosed by the company.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The beneficial owners of 5% of voting shares can be identified from the information disclosed by the company.</li> </ul>

## Annex 1. The IFC Corporate Governance Progression Matrix for Russian Companies

IV. Shareholders Rights	
Minority SH Rights	<p>✓ The company's charter provides for equal rights to all shareholders possessing shares of the same type and class with respect to voting, subscription, and transfer rights.</p> <p>✓ Minority shareholders have representatives on the Supervisory Board.</p> <p>✓ The company has a clearly articulated and enforceable policy in place that protects the rights of minority shareholders in special circumstances, such as change of control.</p> <p>✓ The company has a positive track record on minority shareholder protection.                      ✓ The company has a system of registering shareholder complaints and effectively regulating corporate disputes.</p>
The General Meeting of Shareholders	<p>✓ The agenda of the GMS is not changed after it is approved by the Supervisory Board.</p> <p>✓ The shareholders receive advance notice of the GMS in a timely manner along with material information; the location is accessible for the majority of shareholders.</p> <p>✓ The shareholders are informed of the decisions made by the GMS and the voting results in accordance with legal requirements.</p> <p>✓ The External Registrar of the company is independent from management and the company's major shareholders.</p> <p>✓ The shareholders have access to additional materials (information) other than what is required by law during the preparation for the GMS.</p> <p>✓ The shareholders have the opportunity to ask questions at the GMS.</p> <p>✓ The procedures for counting votes at the GMS are transparent and exclude the possibility of manipulating voting results.</p> <p>✓ The company charter has a special provision specifying the list of materials made available to the shareholders on specific items of the agenda of the GMS.</p> <p>✓ The company has effective shareholder voting mechanisms in place (e.g. supermajority voting) to protect minority shareholder against unfair actions.</p> <p>✓ Shareholders have the possibility to use electronic means of communication (including the internet) for voting.</p> <p>✓ The company posts materials for the GMS, as well as decisions of the most recent GMS, on its internet site.</p>
Dividends	<p>✓ The procedure for determining the amount of dividends on preferred shares does not violate shareholder rights.</p> <p>✓ The company has formally developed and follows a by-law on dividend policy.</p> <p>✓ The company pays declared dividends not later than 60 days after a decision to declare dividends is made.</p> <p>✓ The company's by-law on dividend policy is publicly disclosed.</p>




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Annex 2

## A MODEL COMPANY CHARTER

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Approved  
by the General Meeting of Shareholders  
of the Open Joint Stock Company «\_\_\_\_\_»

Minutes of the [Annual or Extraordinary]  
General Meeting of Shareholders

No. \_\_\_\_\_  
of \_\_\_\_\_ 200\_

dated this \_\_\_ day of \_\_\_\_\_, 200\_  
[The Company's Seal]

## C H A R T E R

of the Open Joint Stock Company  
«\_\_\_\_\_»

The city of \_\_\_\_\_  
\_\_\_\_\_, 200\_



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## Article 1. General Provisions

- 1.1. «\_\_\_\_\_», an Open Joint Stock Company (hereinafter the Company), was established pursuant to the decision of \_\_\_\_\_ [enter the name of the governing body that approved the decision] dated as of \_\_\_\_\_ [enter date].
- 1.2. The Company shall be governed by the present charter (hereinafter the Charter) and any applicable provisions of the Civil Code of the Russian Federation, the Federal Law on Joint Stock Companies, the Federal Law on the Securities Market, and other legislation of the Russian Federation, as well as any other legal acts and regulations adopted pursuant thereto (hereinafter the Law). The Charter also takes into account the recommendations of the Russian Code of Corporate Conduct as developed by the Federal Commission for the Securities Market (hereinafter the FCSM Code).
- 1.3. The duration of the Company shall be unlimited unless reorganized or liquidated pursuant to the Charter and the Law.

## Article 2. The Name and Location of the Company

- 2.1. The full registered name of the Company is:
- 2.1.1. Открытое акционерное общество «\_\_\_\_\_» (in Cyrillic letters);
  - 2.1.2. Open Joint Stock Company «\_\_\_\_\_» (in Latin letters).
- 2.2. The abbreviated registered name of the Company is:
- 2.2.1. ОАО «\_\_\_\_\_» (in Cyrillic letters);
  - 2.2.2. OJSC «\_\_\_\_\_» (in Latin letters).
- 2.3. The Company's location and postal address is \_\_\_\_\_, the Russian Federation, being the location where the Company is registered and where the General Director is located. The Company shall notify the competent registration authorities of its postal address and any changes thereto in the established manner.
- 2.4. The Company has a branch [or a representative office] in the following location in the Russian Federation [and abroad]\_\_\_\_\_.<sup>1</sup>

## Article 3. The Purpose and Activities of the Company

- 3.1. The principal purpose of the Company shall be \_\_\_\_\_ in order to earn profits.
- 3.2. The Company may engage in the following activities with the aim of accomplishing its principal purposes as set forth in Article 3.1. above, while operating within the parameters set forth in the Law and subject to obtaining all necessary licenses or permits:
- 3.2.1. Conduct all activities related to \_\_\_\_\_;
  - 3.2.2. \_\_\_\_\_;
  - 3.2.3. \_\_\_\_\_;
  - 3.2.4. \_\_\_\_\_; and

<sup>1</sup> Law on Joint Stock Companies (LJSC), Article 5, Clause 6, provides that information about a company's branches and representative offices must be included in the charter. If the Company does not have branches and/or representative offices, the charter may include a provision that no branches and representative offices have been established.



- 3.2.5. Carry out any and all other activities not prohibited by the Charter or the Law within the Russian Federation or beyond its borders for the accomplishment of the Company's purposes.

### Article 4. Charter Capital, Securities, and Funds of the Company

- 4.1. The charter capital of the Company (hereinafter the Charter Capital) shall consist of the nominal value of all shares issued to shareholder(s) and amounts to \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles, being the equivalent of \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] U.S. dollars [alternatively, in Euros] at the official exchange rate of the Central Bank of the Russian Federation on the date of the state registration of the Company's Charter.<sup>2</sup>
- 4.2. All shares of the Company are registered shares. The Charter Capital is divided into \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] shares of common stock, each share having a nominal value of \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles, and \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] shares of preferred stock of class A, each share having a nominal value of \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles, and \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] shares of preferred stock of class B, each share having a nominal value of \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles, the total value of which comprises one hundred percent (100%) of the Charter Capital.
- 4.3. In addition to the aforementioned issued shares, the Company shall be authorized to issue \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] additional shares of common stock having a nominal value of \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles per share,<sup>3</sup> \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] shares of preferred stock of class A, each share having a nominal value of \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles, and \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] shares of

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<sup>2</sup> This is recommended in cases where the company's charter includes assets denominated in foreign currency.

<sup>3</sup> LJC, Article 27, Clause 1. This provision is optional. However, the company may wish to include such a provision in the charter to ease its ability to increase the charter capital, which is only possible within the limits of the authorized charter capital and authorized shares.

## Annex 2. A Model Company Charter

preferred stock of class B, each share having a nominal value of \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles (the “Authorized Common Shares” [and “Authorized Preferred Shares”, respectively]) granting the same rights as issued shares, by decision of the [General Meeting of Shareholders (hereinafter the GMS) < or > Supervisory Board].<sup>4</sup>

### 4.4. Once the initial Charter Capital has been paid in full:

4.4.1. The Company is authorized to issue options for the acquisition of shares of the Company.<sup>5</sup> If the Company issues options to acquire shares, the number of authorized shares cannot be less than the number of shares that can be acquired if the options are exercised. The Company may issue options to acquire shares of a specific type and class if the number of shares included in such options does not exceed 5% of the placed shares of that type and class;

4.4.2. The Company shall be authorized to increase its Charter Capital by decision of the GMS<sup>6</sup> or the Supervisory Board either by:

4.4.2.1. Increasing the nominal value of the Company’s issued shares; or

4.4.2.2. Issuing additional shares in one or more installments, however, subject to the limitations contained in the Charter regarding the total number of Authorized Shares [and Authorized Preferred Shares], and with a corresponding amendment of the Charter.<sup>7</sup>

<sup>4</sup> LJSC, Article 27, Clause 1. This provision is optional. However, the company may wish to include such a provision in the charter to make it easier to increase the charter capital, which is only possible within the limits of the authorized charter capital and authorized shares.

<sup>5</sup> Law on the Securities Market, Article 27.1. The regulation of stock options is a novelty in Russian practice. For this reason, the charter provides guidance on how it can be reflected in the Charter.

<sup>6</sup> LJSC, Article 28, Clause 2; Article 48, Clause 1, Section 6. This provision is optional. The authority to increase the charter capital may be delegated to the Supervisory Board by the charter or by decision of the GMS (LJSC, Article 12, Clause 2; Article 28, Clause 2). The Supervisory Board may increase the charter capital only by issuing authorized shares.

<sup>7</sup> LJSC, Article 27. Note the requirement of LJSC, Article 27, Clause 2 that, in the case of issuing convertible securities, the number of authorized shares of the specific type and class may not be less than the number of shares needed for conversion. The GMS may also increase the number of authorized shares and issue these shares at the same time. Note that there are anti-dilution rules where the state holds 25% of shares (LJSC, Article 28, Clause 6).

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- 4.5. The Charter Capital may be decreased by decision of the GMS either by decreasing the nominal value of shares or by purchasing a portion of shares for the purpose of reducing the total number of outstanding shares.
- 4.6. Payment for the shares so purchased may be made in cash, securities, assets or property rights, or other rights having monetary value.
- 4.7. The value of any subsequent contributions in-kind to the Charter Capital shall be determined by the Supervisory Board in accordance with the Law. In cases of in-kind contributions to the Charter Capital, their valuation shall be based on an appraisal by an Independent Appraiser.
- 4.8. The Company must establish a reserve fund in the amount of \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] percent of the Charter Capital.<sup>8</sup>
- 4.9. Annual deductions from the net profits of the Company to be transferred to the reserve fund shall be \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] percent of the net profits until the reserve fund reaches the amount stipulated by Article 4.8 hereof.<sup>9</sup>

### Article 5. Rights and Obligations of Shareholders and Dividends

- 5.1. Each common share shall entitle its owner to equal rights. Each common share grants its owner one vote at the GMS on all matters,<sup>10</sup> and the right to receive dividends and a portion of the Company's assets in the event of the Company's liquidation.
- 5.2. Preferred shares of the same class possess the same rights and have the same nominal value. Preferred shares have no voting rights at the GMS unless otherwise provided for by the Law.

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<sup>8</sup> LJSC, Article 35, Clause 1 provides that the reserve fund may not be less than 5% of the charter capital. In addition, the company may establish other funds that are not required by legislation.

<sup>9</sup> LJSC, Article 35, Clause 1 provides that the annual deductions from the net profits of the company to the reserve fund may not be less than 5% of the net profits.

<sup>10</sup> The exception to the principle of one share-one vote is cumulative voting.

## Annex 2. A Model Company Charter

- 5.2.1. Class A preferred shares<sup>11</sup> entitle their owners, relative to the owners of common shares and other classes of preferred shares, with first priority for receiving dividends and receiving the liquidation value of shares belonging to them.<sup>12</sup>
- 5.2.2. The dividend on each preferred share of class A is \_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles per year, payable annually no later than \_\_\_\_ [in digits] (\_\_\_\_\_) [in words] days after the date of the GMS.<sup>13</sup>
- 5.2.3. Any unpaid dividends or dividends not fully paid on class A preferred shares shall accumulate and be paid once the decision to pay dividends on shares of class A is made.
- 5.2.4. The liquidation value of each class A preferred share is \_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles.<sup>14</sup>
- 5.2.5. Each class A preferred share entitles its owner to \_\_\_\_ [in digits] (\_\_\_\_\_) [in words] votes on all issues on which class A preferred shares provide the right to vote.
- 5.2.6. Class B preferred shares<sup>15</sup> grant their owners second priority for receiving payments for dividends and receiving the liquidation value of shares belonging to them, that is, they receive such payments only after the payment of dividends on class A preferred

<sup>11</sup> Class A preferred shares in this case are cumulative preferred shares. LJSC, Article 32, Clause 3 provides that the charter may have a provision for the conversion of preferred shares of a specific class into common shares or preferred shares of another class. If this is provided, the charter must specify the procedure for conversion, in particular, the number, type, and class of the shares into which they are converted and other conversion terms. It is prohibited to amend the said provisions of the charter after the decision is made to float converted preferred shares.

<sup>12</sup> These are only some of the preferences that can be provided for preferred shares. The charter may provide other or additional preferences for preferred shares.

<sup>13</sup> The charter may provide other ways of determining the amount of dividends to be paid on preferred shares of each class, for example, a percentage of net profits. The period between declaration and the actual payment of dividends shall not exceed 60 days as recommended by the Federal Commission for the Securities Market's Code of Corporate Conduct (FCSM Code), Chapter 9, Section 2.1.3.

<sup>14</sup> The charter may provide other ways of determining the liquidation value to be paid on preferred shares of each class. For example, the percentage of assets left after the satisfaction of claims of creditors can be distributed equally between the owners of class A preferred shares.

<sup>15</sup> Class B preferred shares in this case are non-cumulative preferred shares.

- shares and payment of the liquidation value of class A preferred shares has been completed.
- 5.2.7. The dividend on each preferred share of class B is \_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles per year, payable annually no later than \_\_\_\_ [in digits] (\_\_\_\_\_) [in words] days after the date of the GMS.<sup>16</sup>
- 5.2.8. The liquidation value of each class B preferred share is \_\_\_\_ [in digits] (\_\_\_\_\_) [in words] Rubles.
- 5.2.9. Each class B preferred shares entitles its owner to \_\_\_\_ [in digits] (\_\_\_\_\_) [in words] votes on all issues on which class B preferred shares provide the right to vote.
- 5.3. Shareholders shall have such other rights and obligations as established by the Charter and the Law.<sup>17</sup>
- 5.4. The Company has the right to declare and pay dividends on common shares based on the results of each quarter and/or the results of the fiscal year. The Company shall pay declared dividends within \_\_\_\_\_ [in digits] (\_\_\_\_\_) [in words] days after the decision to declare dividends has been approved.<sup>18</sup>
- 5.5. Dividends shall be paid in money.<sup>19</sup>
- 5.6. The failure to pay declared dividends or the incomplete payment of dividends may be a ground for the Supervisory Board to reduce the remuneration of the General Director.<sup>20</sup>

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<sup>16</sup> LJSC, Article 32, Clause 2 provides that if the date for accumulating and paying dividends against preferred shares of a specified class is not specified by the charter, preferred shares of that class are not deemed to be cumulative.

<sup>17</sup> Shareholders have obligations with regard to the rules on related party transactions (LJSC, Articles 81–84), the disclosure of their affiliation with the company (LJSC, Article 93), and confidentiality (Civil Code, Article 67, 139).

<sup>18</sup> LJSC, Article 42, Clause 4. The charter may specify the period during which declared dividends shall be paid. If that period is not specified, the Company Law requires that declared dividends be paid no later than 60 days from the date of approval. FCSM Code, Chapter 9, Section 2.1.3 recommends that in no case should the period for payment of declared dividends exceed 60 days.

<sup>19</sup> LJSC, Article 42, Clause 1 provides that the charter may specify circumstances when dividends are paid in kind. FCSM Code, Chapter 9, Section 2.1.4. recommends that dividends be paid in cash.

<sup>20</sup> FCSM Code, Chapter 9, Section 3.

## Article 6. The Governing Bodies of the Company

- 6.1. The Company shall have the following governing bodies:
  - 6.1.1. The GMS;
  - 6.1.2. The Supervisory Board;
  - 6.1.3. The General Director; and
  - 6.1.4. The Executive Board.

## Article 7. The General Meeting of Shareholders

- 7.1. The GMS is the highest governing body of the Company.
- 7.2. The Annual General Meeting of Shareholders (hereinafter the AGM) must be held annually on the following date: \_\_\_\_\_ [*insert a date between March 1 and June 30*].
- 7.3. All GMS other than the AGM shall be Extraordinary General Meetings of Shareholders (hereinafter the EGM).
- 7.4. The GMS shall be valid if a quorum is present.<sup>21</sup>
- 7.5. The detailed procedures for preparing and conducting the GMS are specified by the Law, the Charter, and by-laws of the Company.
- 7.6. The AGM shall be held in the Russian Federation in the place where the Company is located or at another location if so specified in the by-laws of the Company or by the Supervisory Board.
- 7.7. The following issues fall within the authority of the GMS and shall be decided upon by a simple majority vote of shareholders participating in the GMS:
  - 7.7.1. An increase in the Charter Capital by increasing the nominal value of placed shares;
  - 7.7.2. An increase in the Charter Capital by issuing additional common and preferred shares through open subscription;

<sup>21</sup> LJSC, Article 58, Clause 1 defines a quorum for the original and any reconvened GMS. In companies with more than 500 thousand shareholders, the charter may specify a lower quorum for the reconvened GMS. FCSM Code, Chapter 2, Section 2.3 recommends that the quorum for any reconvened GMS in large companies be not less than 20% of voting shares.

- 7.7.3. A reduction of the Charter Capital by decreasing the nominal value of issued shares;
- 7.7.4. A reduction of the Charter Capital by reducing the number of issued shares by retiring purchased or redeemed shares;
- 7.7.5. Splitting and consolidating shares;
- 7.7.6. The election and dismissal of Supervisory Board members;<sup>22</sup>
- 7.7.7. Setting the number of Supervisory Board members;<sup>23</sup>
- 7.7.8. The approval of the remuneration for Supervisory Board members;
- 7.7.9. The delegation of the authority of the General Director to an External Manager;
- 7.7.10. The election and dismissal of Revision Commission members;
- 7.7.11. The approval of the terms of compensation and remuneration for Revision Commission members;
- 7.7.12. The approval of the annual reports, annual financial statements, including balance sheet, profit and loss statements, statement of cash-flows, and notes to the financial statements, as well as the distribution of profits and losses based on the results of the fiscal year;
- 7.7.13. The declaration and payment of dividends based on the results of each quarter and/or the results of the fiscal year;
- 7.7.14. The election of the External Auditor;
- 7.7.15. Establishing procedures for conducting the GMS;<sup>24</sup>
- 7.7.16. The election and dismissal of Counting Commission members;<sup>25</sup>

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<sup>22</sup> LJSC, Article 66, Clause 4, Paragraph 13, states that directors who are elected with cumulative voting do not necessarily require a simple majority of votes to be elected. The candidates who receive the most votes are elected, which can be fewer than a simple majority of votes.

<sup>23</sup> LJSC, Article 66, Clause 3, Paragraph 1. The number of directors can be determined either by the charter (see Article 8.2 of the Charter) or decision of the GMS.

<sup>24</sup> It is advisable to specify the procedures for conducting the GMS in the company's by-laws. LJSC, Article 49, Clause 5 provides that either the charter or by-laws of the company may establish the procedures for decision-making on the issue.

<sup>25</sup> LJSC, Article 56, Clause 1, Paragraph 2. If the company has more than 500 shareholders with voting rights, the functions of the Counting Commission shall be performed by the External Registrar of the company. In companies with fewer shareholders with voting rights, the External Registrar could be assigned the functions of the Counting Commission.

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- 7.7.17. Designating the number of Counting Commission members;
  - 7.7.18. The approval of internal documents that regulate the activities of the Company's governing bodies (the Supervisory Board, the General Director, and the Executive Board);
  - 7.7.19. The approval of the by-law for the Revision Commission;
  - 7.7.20. The approval of the reimbursement of expenses for preparing and conducting an EGM if convened by parties other than the Supervisory Board;
  - 7.7.21. The approval of extraordinary transactions that are subject to the approval of the Supervisory Board in cases where the Supervisory Board failed to unanimously approve the transaction and transferred the authority for its approval to the GMS;
  - 7.7.22. The approval of related party transactions in cases specified by the Law on Joint Stock Companies;
  - 7.7.23. A waiver of the obligation of the controlling shareholders to make a buy-out offer during control transactions;<sup>26</sup>
  - 7.7.24. Determine the list of additional documents that must be kept by the Company;
  - 7.7.25. Authorization for the Company to participate in holding companies, financial and industrial groups, and any associations or other unions of commercial entities; and
  - 7.7.26. Requesting an extraordinary inspection of the financial and economic activities of the Company by the Revision Commission.
- 7.8. A decision of the GMS on the following issues shall be adopted if a three-fourths majority vote of shareholders participating in the GMS is reached:
- 7.8.1. Amending the Charter or approving a new version of the Charter;
  - 7.8.2. The reorganization of the Company;

<sup>26</sup> LJSC, Article 80 provides for a waiver of the right to acquire shares in a company with more than 1,000 shareholders in case of acquisition of 30% or more of the company's common shares.



- 7.8.3. The liquidation of the Company and the appointment of the Liquidation Commission;
  - 7.8.4. The approval of the interim and final liquidation balance sheets;
  - 7.8.5. The determination of the number, nominal value, types, and classes of authorized shares that can be issued and placed by the Company, as well as which rights attach to these shares;
  - 7.8.6. The approval of extraordinary transactions involving more than 50 percent of the book value of assets of the Company;
  - 7.8.7. A buyback of shares by the Company in cases specified by the Law on Joint Stock Companies;<sup>27</sup>
  - 7.8.8. The issue of additional shares through closed subscription;<sup>28</sup>
  - 7.8.9. The issue of convertible securities through closed subscription;<sup>29</sup>
  - 7.8.10. The issue of additional shares through open subscription that are 25 or more percent of already placed common shares;<sup>30</sup> and
  - 7.8.11. The issue of convertible securities if such securities can be converted into 25 or more percent of already issued common shares.<sup>31</sup>
- 7.9. A decision of the GMS on amending the Charter that limits the rights of preferred shareholders shall be adopted if the decision is approved by:<sup>32</sup>
- 7.9.1. A three-fourths majority vote of preferred shareholders of the class whose rights will be affected as a result of Charter amendments; and

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<sup>27</sup> LJSC, Article 72, Clause 1 provides that the charter may delegate this authority to the Supervisory Board. To avoid potential abuses, the company may not wish to delegate this authority to the Supervisory Board.

<sup>28</sup> LJSC, Article 39, Clause 3. The charter may require a higher number of votes to adopt the specified decision.

<sup>29</sup> LJSC, Article 39, Clause 3. The charter may require a higher number of votes to adopt the specified decision.

<sup>30</sup> LJSC, Article 39, Clause 4, Paragraph 1. The charter may require a higher number of votes to adopt the specified decision.

<sup>31</sup> LJSC, Article 39, Clause 4, Paragraph 2. The charter may require a higher number of votes to adopt the specified decision.

<sup>32</sup> LJSC, Article 32, Clause 4, Paragraph 2. The charter may require a higher number of votes to adopt the specified decision.

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- 7.9.2. A separate three-fourths majority vote of all other shareholders with voting rights participating in the GMS.
- 7.10. A decision on those issues set forth in sections 7.7.9, 7.7.12–7.7.13, 7.8.2–7.8.4 can be taken only if submitted by the Supervisory Board.
- 7.11. [A decision on those issues set forth in sections 7.7.1–7.7.2, 7.7.11, 7.7.18–7.7.19, 7.7.21–7.7.22, 7.7.25, 7.8.6–7.8.8, 7.8.10 can be taken only if submitted by the Supervisory Board.<sup>33</sup>]
- 7.12. Issues falling within the authority of the GMS may not be delegated to the executive bodies of the Company.
- 7.13. The notification of the GMS and the voting ballot together with a sample power of attorney<sup>34</sup> shall be sent \_\_\_\_\_ days prior to the GMS<sup>35</sup> to all shareholders included in the list of shareholders entitled to participate in the GMS by registered mail [*option*: and/or published in \_\_\_\_\_ [*name of the printed media*], \_\_\_\_\_ [*name of the printed media*], and \_\_\_\_\_ [*name of the printed media*].<sup>36</sup> The notification for the GMS may be sent by other means of communication.
- 7.14. The following information and documents shall be made available for shareholders \_\_\_\_\_ days prior to the GMS:<sup>37</sup>

<sup>33</sup> Unless the charter provides otherwise.

<sup>34</sup> FCSM Code, Chapter 2, Section 1.7 recommends this in order to provide shareholders with the possibility to vote through an authorized representative.

<sup>35</sup> LJSC, Article 52, Clause 1 provides that shareholders be notified of the GMS at least 20 days prior to the GMS, at least 30 days prior to the GMS if the agenda covers the reorganization of the company, and 50 days in the event of an EGM if the agenda includes the election of directors by cumulative voting. FCSM Code, Chapter 2, Section 1.1.1 recommends a notification period of at least 30 days.

<sup>36</sup> LJSC, Article 52, Clause 1 provides that notification by registered mail is the default rule. The charter, however, may provide for other ways of notification in lieu of, or in addition to, registered mail such as publication in the print media, which requires the charter to specify the name of the print media, personal delivery, and possibly other means of notification. FCSM Code, Chapter 2, Section 1.1.4 also recommends that the company select several print media.

<sup>37</sup> LJSC, Article 52, Clause 3 provides a list of information (materials) that shall be submitted to the shareholders as part of the preparation for the GMS. FCSM Code, Chapter 2, Section 1.3.1 recommends additional materials and documents.

- 7.14.1. The annual financial statements, including the balance sheet, profit and loss statement, statement of cash flows, and notes to the financial statements;
  - 7.14.2. The minutes of the Revision Commission and report of the Revision Commission that verifies the data in the annual report;
  - 7.14.3. The report of the External Auditor;
  - 7.14.4. Information on proposed candidates for the position of the General Director, and members of the Executive Board, the Supervisory Board, the Revision Commission, and the Counting Commission;
  - 7.14.5. The draft of amendments to the Charter, if any;
  - 7.14.6. The draft of the new version of the Charter, if any;
  - 7.14.7. Drafts of any internal documents of the Company if same have been submitted for approval;
  - 7.14.8. Drafts of decisions for the AGM;
  - 7.14.9. The annual report;
  - 7.14.10. The recommendations of the Supervisory Board on the distribution of profits, including the amount of dividends and the procedure for their payment, and on the distribution of losses of the Company based on the results of the previous fiscal year;
  - 7.14.11. The report of the Supervisory Board to shareholders;<sup>38</sup>
  - 7.14.12. Information regarding the position of the Supervisory Board and any dissenting opinions of directors on each agenda item;<sup>39</sup> and
  - 7.14.13. Any other information required by the Law and internal documents of the Company.
- 7.15. If the agenda of the GMS includes the election of the Supervisory Board, the General Director, the Revision Commission, the Counting Commission and the approval of the External Auditor, information as to the existence of the written consent of the candidates shall also be provided to shareholders.

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<sup>38</sup> FCSM Code, Chapter 2, Section 1.3.1.

<sup>39</sup> FCSM Code, Chapter 2, Section 1.3.3.

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- 7.16. If the agenda of the GMS includes items that can trigger redemption rights, the following information and documents shall be made available for shareholders during the preparation for the GMS:
- 7.16.1. The report of the Independent Appraiser on the market value of shares of the Company, the redemption of which can be requested;
  - 7.16.2. Information regarding the value of the net assets of the Company based on the data contained in the financial statements for the last reporting period; and
  - 7.16.3. The minutes (or an excerpt from the minutes) of the Supervisory Board meeting that determined the redemption price for shares and indicated that redemption price.
- 7.17. If the agenda of the GMS includes the reorganization of the Company, the following information and documents shall be made available for shareholders during the preparation for the GMS:
- 7.17.1. The basis or grounds for the terms and procedures of the reorganization that is contained in the decision on the consolidation, merger, split-up, divestiture, or transformation, or in the contract on merger or consolidation that is approved by the relevant Supervisory Board;
  - 7.17.2. The annual reports and the financial statements of all companies involved in the reorganization for the last three fiscal years, or for all completed fiscal years if the Company was established less than three years ago; and
  - 7.17.3. The quarterly accounting documents for the quarter that precedes the date of the GMS.
- 7.18. Information and materials should be submitted to the persons entitled to participate in the GMS for the purpose of familiarization at the premises of the Company and other locations specified in the notification on the GMS.<sup>40</sup>
- 7.19. If the agenda of the GMS includes the election of members to the Supervisory Board, the Revision Commission, or the proposed External Auditor of the Company, the candidates shall be present when the GMS discusses this issue.<sup>41</sup>

<sup>40</sup> FCSM Code, Chapter 2, Section 1.1.3 recommends providing additional access to such information through electronic means of communications, including the internet.

<sup>41</sup> FCSM Code, Chapter 2, Section 2.1.4.

### Article 8. The Supervisory Board

- 8.1. The Supervisory Board shall supervise the executive bodies and provide overall strategic oversight of the Company's activities, except for those issues within the authority of the GMS.
- 8.2. The Supervisory Board shall consist of \_\_\_\_\_ members who shall be knowledgeable and experienced in the areas of the Company's business activities.<sup>42</sup>
- 8.3. The following issues fall within the authority of the Supervisory Board:
  - 8.3.1. Determining the priority goals and strategic direction of the Company;
  - 8.3.2. Approving the financial and business plan of the Company;<sup>43</sup>
  - 8.3.3. Appointing and dismissing the General Director and, upon the recommendation of the General Director, Executive Board members;
  - 8.3.4. Suspending the powers of the External Manager, if the GMS has transferred the authority of the General Director, and appointing an interim General Director;<sup>44</sup>
  - 8.3.5. Supervising the operations of the executive bodies of the Company;
  - 8.3.6. Requesting the minutes of Executive Board meetings;
  - 8.3.7. Authorizing the General Director or an Executive Board member to serve in a similar capacity in any governing body (Supervisory Board, General Director, Executive Board) of another legal entity;
  - 8.3.8. Authorizing other persons, other than the Chairman of the Supervisory Board, to sign contracts with the General Director, Executive Board members, or the External Manager;
  - 8.3.9. Designating the terms of contracts with the General Director, Executive Board members, and the Corporate Secretary, including the terms and conditions for remuneration;

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<sup>42</sup> FCSM Code, Chapter 3, Section 2.2.3 recommends that the Supervisory Board be composed of at least three independent directors, or that at least one-fourth of the total number of members should be independent directors.

<sup>43</sup> FCSM Code, Chapter 3, Section 1.1.

<sup>44</sup> FCSM Code, Chapter 3, Section 1.4.1.

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- 8.3.10. Initiating the steps for the reimbursement of losses caused to the Company by Supervisory Board members;
- 8.3.11. Taking steps to reimburse the Company for losses caused by the General Director and Executive Board members, including the incomplete and/or untimely payment of declared dividends, as well as the failure to provide documents and information to the Supervisory Board where required pursuant to this Charter or by-laws of the Company;
- 8.3.12. Appointing the Corporate Secretary;<sup>45</sup>
- 8.3.13. Establishing permanent and/or *ad hoc* Supervisory Board committees;
- 8.3.14. Approving by-laws and internal documents other than those that require the approval of the GMS or the executive bodies of the Company;
- 8.3.15. Establishing and liquidating branches and/or representative offices of the Company, and making the corresponding amendments to the Charter;
- 8.3.16. Establishing and liquidating subsidiaries and/or dependent companies in the Russian Federation and outside of the Russian Federation;
- 8.3.17. Calling the GMS including both the AGM and any EGM;
- 8.3.18. Determining the form for conducting the GMS, e.g. with joint presence of shareholders or written consent;
- 8.3.19. Determining the date, place, and time of the GMS, the time for commencing and ending the registration of shareholders and their representatives, and the postal address to which completed voting ballots must be sent;
- 8.3.20. Determining the date for compiling the list of persons entitled to participate in the GMS;
- 8.3.21. Reviewing proposals of shareholders and including approved proposals in the agenda of the GMS or rejecting proposals for the agenda;
- 8.3.22. Approving the agenda of the GMS;
- 8.3.23. Submitting proposals to the agenda of the GMS for items that can only be put on the agenda by the Supervisory Board;

<sup>45</sup> FCSM Code, Chapter 5, Section 2.1.

- 8.3.24. Determining procedures for notifying shareholders of the GMS;
- 8.3.25. Compiling the list of information and materials to be made available for shareholders during the preparation for the GMS, and of the procedure for accessing this information;
- 8.3.26. Determining the form and the text of the voting ballot;
- 8.3.27. Determining the classes of preferred shares, the owners of which shall have voting rights on each agenda item;
- 8.3.28. Including additional items on the agenda of the GMS upon its own initiative;
- 8.3.29. Proposing candidates to the governing bodies on the agenda if shareholders nominated less than the minimum number of candidates;
- 8.3.30. Increasing the Charter Capital by issuing additional authorized shares;
- 8.3.31. Approving of the report on the results of any share buyback by the Company for the purpose of decreasing the Charter Capital;
- 8.3.32. Issuing non-convertible bonds;<sup>46</sup>
- 8.3.33. Approving the decision to purchase bonds placed by the Company;
- 8.3.34. Determining the market value of assets, the placement price, and the redemption price of shares and other securities;
- 8.3.35. Approving the External Registrar of the Company and the terms and conditions of the contract with the Registrar;
- 8.3.36. Using the reserve fund of the Company and other funds, if applicable;
- 8.3.37. Approving recommendations for the GMS regarding the amount of dividends and the approval of the procedure for the payment of such dividends;
- 8.3.38. Approving any extraordinary transactions that involve not more than 50 percent of the book value of the Company's assets;<sup>47</sup>

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<sup>46</sup> Good practice suggests that the Supervisory Board have the authority only to issue non-convertible bonds.

<sup>47</sup> LJC, Article 78 provides that the charter may stipulate the same approval procedures for other transactions as extraordinary transactions (defined within 25–50% of the book value of the company's assets).

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- 8.3.39. Approving any transactions that involve ten percent of the book value of assets of the Company;<sup>48</sup>
  - 8.3.40. Approving any related party transactions that fall within the authority of the Supervisory Board;
  - 8.3.41. Requesting the Revision Commission to conduct an extraordinary inspection;
  - 8.3.42. Approving recommendations for the GMS regarding the remuneration of Revision Commission members;
  - 8.3.43. Determining the fees of the External Auditor;
  - 8.3.44. Preliminarily approving the annual report of the Company;
  - 8.3.45. Preparing and approving the annual report of the Supervisory Board regarding the business priorities of the Company for inclusion in the annual report of the Company;
  - 8.3.46. Preparing and submitting the report on compliance with the FCSM Code;
  - 8.3.47. Requesting oral and written reports as well as any other documents and information from the General Director, Executive Board members and other officials of the Company that are necessary for fulfilling its functions as a Supervisory Board;
  - 8.3.48. Making decisions regarding operations that go beyond the financial and business plan of the Company (non-standard operations); and
  - 8.3.49. Determining the list of additional documents that shall be kept by the Company.
- 8.4. Issues falling under the authority of the Supervisory Board may not be delegated to the executive bodies of the Company.
  - 8.5. The procedures for preparing and conducting Supervisory Board meetings shall be regulated by this Charter and by-laws of the Company.
  - 8.6. Supervisory Board meetings are convened by the Chairman of the Supervisory Board upon:
    - 8.6.1. The initiative of the Chairman of the Supervisory Board; or
    - 8.6.2. The request of a Supervisory Board member; or
    - 8.6.3. The request of the Revision Commission; or
    - 8.6.4. The request of the External Auditor; or

<sup>48</sup> FCSM Code, Chapter 4, Section 1.1.3.



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- 8.6.5. The request of the General Director; or
- 8.6.6. The request of the Executive Board; or
- 8.6.7. The request of those shareholders holding two percent or more of voting shares.<sup>49</sup>
- 8.7. A quorum for the Supervisory Board meeting shall be \_\_\_\_\_ of the elected Supervisory Board members.<sup>50</sup>
- 8.8. The Supervisory Board shall make its decisions by a \_\_\_ majority vote of the Supervisory Board members who participate in the Supervisory Board meeting.<sup>51</sup>
- 8.9. A Supervisory Board member is prohibited from transferring his vote to any other person, including other members of the Supervisory Board.
- 8.10. The Supervisory Board shall approve the following decisions by unanimous vote of all the acting members of the Supervisory Board:
  - 8.10.1. Increases in the Charter Capital by issuing additional shares; and
  - 8.10.2. Approval of an extraordinary transaction.
- 8.11. The following decisions of the Supervisory Board shall be approved by a three-fourths majority of Supervisory Board members participating in the Supervisory Board meeting:
  - 8.11.1. The suspension of the powers the External Manager for any reason;
  - 8.11.2. The approval of an interim General Director; and
  - 8.11.3. Conducting an EGM to approve the new General Director, or the External Manager.

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<sup>49</sup> FCSM Code, Chapter 3, Section 4.13 recommends that the charter specify other parties who have the right to request a meeting of the Supervisory Board. As an option, the FCSM Code proposes to give this right to a shareholder (or a group of shareholders) possessing at least 2% of voting shares.

<sup>50</sup> LJSC, Article 68, Clause 2 provides that the quorum for a Supervisory Board meeting should not be less than a majority of the Supervisory Board members. However, the FCSM Code, Chapter 3, Section 4.14 recommends a higher number for a quorum which should be set at a level ensuring that without the presence of non-executive and independent Supervisory Board members, there can be no valid quorum.

<sup>51</sup> LJSC, Article 68, Clause 3 provides for a simple majority vote of Supervisory Board members that are present at the meeting for the Board to adopt a decision, unless the charter or the by-laws require a higher number of votes. The charter may also grant a deciding vote to the Chairman of the Supervisory Board in the event of a tie vote.

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- 8.12. The Supervisory Board shall approve related party transactions by a simple majority vote of those directors who are not interested parties to the transaction.<sup>52</sup>
- 8.13. The Supervisory Board shall elect the members of Supervisory Board committees by a simple majority vote of all Supervisory Board members.
- 8.14. The Supervisory Board may make its decisions by an absentee vote as specified in the by-laws of the Company.<sup>53</sup>
- 8.15. The written opinions of absentee Supervisory Board members shall be considered when the Supervisory Board makes decisions.<sup>54</sup>
- 8.16. For the election of Supervisory Board members, shareholders shall receive information on:<sup>55</sup>
- 8.16.1. The identity of the shareholder or the group of shareholders who nominated the candidate;
  - 8.16.2. The age and educational background of the candidate;
  - 8.16.3. The positions held by the candidate during the last five years;
  - 8.16.4. The positions held by the candidate at the moment of his nomination;
  - 8.16.5. The nature of the relationship the candidate has with the Company;
  - 8.16.6. Any positions held by the candidate on the Supervisory Board, or any other official positions that are held by the candidate in other legal entities;
  - 8.16.7. Information on any nominations of the candidate for a position on the Supervisory Board, or any other official positions with other legal entities;
  - 8.16.8. The relationship of the candidate with any affiliated persons;

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<sup>52</sup> LJSC, Article 83, Clause 2 and 3. This applies to companies with 1,000 or fewer shareholders with voting rights. In companies with more than 1,000 shareholders with voting rights, it is only necessary to have a simple majority of independent directors who are not interested parties in the related party transaction.

<sup>53</sup> LJSC, Article 68, Clause 1 states that the charter may provide for the approval of decisions through the Supervisory Board by absentee vote when making critical decisions. This is recommended by the FCSM Code, Chapter 3, Section 4.3.2.

<sup>54</sup> FCSM Code, Chapter 3, Section 4.3.1.

<sup>55</sup> FCSM Code, Chapter 3, Section 2.3.1.

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- 8.16.9. The nature of the candidate's relationship with major business partners of the Company;
  - 8.16.10. Information related to the financial status of the candidate and other circumstances that may affect the duties of the candidate as a member of the Supervisory Board; and
  - 8.16.11. Any refusal by the candidate to disclose information that has been requested by the Company.
- 8.17. The candidates for the position of Supervisory Board members shall possess:<sup>56</sup>
- 8.17.1. \_\_\_\_\_;
  - 8.17.2. \_\_\_\_\_; and
  - 8.17.3. \_\_\_\_\_.
- 8.18. The Supervisory Board members shall be elected by cumulative voting.
- 8.19. The Supervisory Board members shall:
- 8.19.1. Act in the best interests of the Company and its shareholders;
  - 8.19.2. Carry out their duties with an appropriate level of care and loyalty;
  - 8.19.3. Actively participate in Supervisory Board committees to which they are elected;
  - 8.19.4. Not disclose confidential information, or any other information they became aware of during the course of performing their duties, to persons that do not have access to such information, nor use such information for their own personal interests or for the interests of other persons;
  - 8.19.5. Notify the Supervisory Board in writing of any conflicts of interests and disclose information as to all concluded transactions in which the member was interested; and
  - 8.19.6. Provide the shareholders with complete and accurate information about the Company's activities, financial status, and corporate governance practices in a timely manner.

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<sup>56</sup> FCSM Code, Chapter 3, Section 1.4.2. Insert the relevant qualifications of a candidate for the position of a Supervisory Board member, such as educational background, experience, relevant contacts, and personal characteristics.

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- 8.20. For the purposes of the Charter, Supervisory Board members are deemed independent if their only non-trivial professional, familial, or financial connection to the Company, Supervisory Board, General Director, or any other executive officer is their directorship, and:<sup>57</sup>
- 8.20.1. Over the last three years has not been, and, at the time of his election to the Supervisory Board, is not an officer (manager) or employee of the Company, or an officer or employee of the External Manager of the Company;
  - 8.20.2. Over the last three years has not been, and, at the time of his election to the Supervisory Board, is not an officer of another company in which any of the officers of the Company is a member of the Nominations and Remuneration Committee of the Supervisory Board;
  - 8.20.3. Over the last three years has not been, and, at the time of his election to the Supervisory Board, is not an affiliated person of an officer (manager) of the Company (or officer of the Company's External Manager);
  - 8.20.4. Over the last three years has not been, and, at the time of his election to the Supervisory Board, is not an affiliated person of the Company or an affiliated person of such affiliated persons;
  - 8.20.5. Is not bound by contractual relations with the Company, whereby such member may acquire property or receive money with a value in excess of ten percent of such person's aggregate annual income, not including any remuneration received for participating in activities of the Supervisory Board;
  - 8.20.6. Over the last three years has not been, and, at the time of his election to the Supervisory Board, is not a major business partner of the Company. A major business partner is defined as a business partner whose annual transactions with the Company are valued in excess of ten percent of the book value of assets of the Company; and
  - 8.20.7. Over the last three years has not been, and, at the time of his election to the Supervisory Board, is not a representative of the Government of the Russian Federation.

<sup>57</sup> FCSM Code, Chapter 3, Section 2.2.2. For an alternative definition of independent directors see Annex 18.

- 8.21. Independent directors should inform the Supervisory Board of any changes in their independence.
- 8.22. The Supervisory Board may establish committees for the provisional consideration of major issues and the development of proposals in accordance with the requirements specified in the by-laws of the Company.<sup>58</sup>

### Article 9. The Executive Bodies

- 9.1. The execution of the day-to-day operations of the Company shall be conducted by the following executive bodies:
  - 9.1.1. The General Director; and
  - 9.1.2. The Executive Board.
- 9.2. Neither the General Director nor Executive Board members shall serve on a governing body of any other Company without the prior approval of the Supervisory Board. The General Director and Executive Board members may not be a member of the governing bodies or an employee of a competing company.
- 9.3. In addition to the authority of the General Director and the Executive Board as defined in the Charter, by-laws, and any other applicable legal provisions, the rights and obligations of the General Director and of the Executive Board may be specified in the employment contract entered into between the Company and the General Director or Executive Board members. Such employment contract shall be signed on behalf of the Company by the Chairman of the Supervisory Board, except that such contracts for Executive Board members shall be signed by the General Director after the terms have been approved by the Supervisory Board.
- 9.4. The General Director presides over Executive Board meetings.
- 9.5. The Executive Board shall consist of \_\_\_\_\_ persons.
- 9.6. The authority of the executive bodies includes all issues related to the day-to-day management of the Company's activities, except for those is-

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<sup>58</sup> The number, names, authority, and working procedures of Supervisory Board committees will be specified in the by-laws of the Company. See also: Annexes 7–10.

## Annex 2. A Model Company Charter

sues that fall within the authority of the GMS and the Supervisory Board.

- 9.7. The General Director and Executive Board members are elected for \_\_\_\_\_ [years].<sup>59</sup>
- 9.8. The General Director and Executive Board members may begin to perform their duties from the moment the minutes of the Supervisory Board meeting are signed by the Supervisory Board.
- 9.9. The General Director has the authority to:
  - 9.9.1. Act without a power of attorney on behalf of the Company;
  - 9.9.2. Represent the Company's interests in relations with third parties;
  - 9.9.3. Conclude transactions on behalf of the Company within the limitations set forth by the present Charter and the Law;
  - 9.9.4. Hire staff, sign labor contracts, and manage the performance of all employees of the Company;
  - 9.9.5. \_\_\_\_\_; and
  - 9.9.6. \_\_\_\_\_.
- 9.10. The Executive Board has the authority to adopt the following decisions:
  - 9.10.1. Provisional approval of transactions or a group of related transactions with property, the value of which exceeds five percent of the book value of the Company's assets according to the balance sheet prepared for the latest reporting period;
  - 9.10.2. Decisions regarding issues to be included on the agenda of the GMS of subsidiary companies in which the Company is the only shareholder;
  - 9.10.3. Development of the Company's financial and business plans;
  - 9.10.4. \_\_\_\_\_;
  - 9.10.5. \_\_\_\_\_; and
  - 9.10.6. Other issues specified by the Law, the Charter, and the by-laws of the Company.

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<sup>59</sup> To ensure continuity in the Company's direction of development, the IFC's RCGP recommends electing the General Director and Executive Board members for a term of 3–5 years, following an initial one-year term.

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- 9.11. The General Director calls the Executive Board meetings either upon his own initiative or upon the request of the Supervisory Board or an Executive Board member.
- 9.12. The procedures for Executive Board meetings shall be regulated by the Law, the Charter, and the by-laws of the Company.
- 9.13. The following decisions are approved by the Executive Board by a three-fourths majority vote of Executive Board members participating in the meeting:<sup>60</sup>
- 9.13.1. \_\_\_\_\_;
  - 9.13.2. \_\_\_\_\_; and
  - 9.13.3. \_\_\_\_\_.
- 9.14. The following decisions are approved by a unanimous vote of Executive Board members participating in the meeting:
- 9.14.1. \_\_\_\_\_;
  - 9.14.2. \_\_\_\_\_; and
  - 9.14.3. \_\_\_\_\_.
- 9.15. The candidates for the positions of General Director, Executive Board members, and the External Manager may not be officials or employees of another company that competes with the Company.
- 9.16. The General Director and Executive Board members shall:
- 9.16.1. Act honestly;
  - 9.16.2. Act in the best interests of the Company and its shareholders;
  - 9.16.3. Act with care and be loyal;
  - 9.16.4. Not disclose confidential information or any other information they became aware of during the performance of their duties to persons who do not have access to such information, nor use such information for their own personal interests or for the interests of other persons;
  - 9.16.5. Notify the Supervisory Board in writing of any conflicts of interests regarding transaction with the Company and disclose information as to all concluded transactions in which the member was an interested party; and

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<sup>60</sup> Insert the list of decisions that require a three-fourths majority vote.

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- 9.16.6. Provide the Supervisory Board and shareholders with complete and accurate information about the Company's activities, financial status, and effective corporate governance practices in a timely manner.
- 9.17. An Executive Board member should:
  - 9.17.1. Regularly attend and actively participate in Executive Board meetings;
  - 9.17.2. Participate actively in the discussion of issues and vote on matters included on the agenda of Executive Board meetings;
  - 9.17.3. Place matters on the agenda of Executive Board meetings or demand that the General Director conduct an Executive Board meeting when this is necessary;
  - 9.17.4. Notify the General Director if the member is unable to attend an Executive Board meeting;
  - 9.17.5. Provide adequate information to the Supervisory Board so that its members are properly informed on corporate matters.<sup>61</sup>
- 9.18. The General Director and Executive Board members shall refrain from:
  - 9.18.1. Participating in a competing Company;<sup>62</sup>
  - 9.18.2. Participating in transactions involving a potential conflict of interest with the Company, such as related party transactions;
  - 9.18.3. Using corporate property and facilities for personal reasons unless authorized by the Supervisory Board; and
  - 9.18.4. Using information or business opportunities for personal benefit.

### Article 10. The Corporate Secretary

- 10.1. The Company shall appoint a Corporate Secretary.<sup>63</sup>
- 10.2. The functions, rights, and duties of the Corporate Secretary shall be defined by the Charter and by-laws of the Company.

<sup>61</sup> FCSM Code, Chapter 3, Section 3.1.2.

<sup>62</sup> FCSM Code, Chapter 4, Section 2.1.3.

<sup>63</sup> FCSM Code, Chapter 5, Introduction.



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- 10.3. The Corporate Secretary shall ensure:<sup>64</sup>
- 10.3.1. Compliance with the Law, the Charter and by-laws of the Company regarding the preparation and conducting of the GMS and Supervisory Board meetings;
  - 10.3.2. The disclosure of relevant information and storage of Company documents;
  - 10.3.3. The examination of shareholder requests;
  - 10.3.4. The resolution of disputes related to the violation of shareholder rights; and
  - 10.3.5. \_\_\_\_\_.
- 10.4. The candidates for Corporate Secretary shall have:<sup>65</sup>
- 10.4.1. \_\_\_\_\_;
  - 10.4.2. \_\_\_\_\_; and
  - 10.4.3. \_\_\_\_\_.
- 10.5. The Corporate Secretary is entitled to receive any information from the Company's governing bodies and employees as required to perform his functions. The Supervisory Board, the General Director, the Executive Board, and other officials of the Company shall provide the Corporate Secretary with any information so requested.<sup>66</sup>
- 10.6. The Corporate Secretary is appointed by the Supervisory Board and shall perform his duties pursuant to the provisions of the Charter, the by-laws of the Company, and provisions of the contract entered into between the Secretary and the Company.<sup>67</sup>

## Article 11. The Revision Commission and External Audits

- 11.1. The Revision Commission shall be elected at the AGM and remain in existence until the next AGM.
- 11.2. The Revision Commission shall consist of \_\_\_\_\_ members.

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<sup>64</sup> FCSM Code, Chapter 5, Section 1.

<sup>65</sup> FCSM Code, Chapter 5, Section 2.2.1. Insert qualifications required for the candidate for the position of a corporate secretary, such as education background, experience, and personal characteristics.

<sup>66</sup> FCSM Code, Chapter 5, Section 1.6.1.

<sup>67</sup> FCSM Code, Chapter 5, Section 2.1.

## Annex 2. A Model Company Charter

- 11.3. The Revision Commission shall perform its duties in conformity with the Law, the Charter, and the by-laws of the Company.
- 11.4. The Revision Commission shall:
  - 11.4.1. Inspect the Company's financial and business activities by performing regular and extraordinary inspections, and submit its reports to the GMS;
  - 11.4.2. Inspect specific aspects of the Company's financial and business activities upon the request of a shareholder or a group of shareholders owning at least ten percent of voting shares, or at the request of the Supervisory Board;
  - 11.4.3. Verify compliance of the activities of the Supervisory Board with the Law;
  - 11.4.4. Verify facts regarding the use of insider information;
  - 11.4.5. Verify the timeliness of payments to contractors, payments to the budget, calculations and payments of dividends, and the performance of other obligations by the Company;
  - 11.4.6. Examine the use of the Company's reserve fund and other funds;
  - 11.4.7. Verify the timeliness of payments for issued shares of the Company;
  - 11.4.8. Review the Company's financial status, its solvency, and creditworthiness;
  - 11.4.9. Confirm the accuracy of data contained in the Company's annual report and other annual financial statements;
  - 11.4.10. Oversee the valuation of the Company's net assets;
  - 11.4.11. Inform the GMS and the Supervisory Board of any problems or deficiencies revealed;
  - 11.4.12. \_\_\_\_\_;
  - 11.4.13. \_\_\_\_\_; and
  - 11.4.14. Perform any other duties as specified by the Law, the Charter, and the by-laws of the Company.
- 11.5. The Company shall have an External Auditor who shall be elected by the GMS.
- 11.6. The External Auditor shall act pursuant to the Law and the provisions of the contract entered into between the Company and the External Auditor.

### Article 12. The Annual Report of the Company

- 12.1. The annual report shall include the following information:<sup>68</sup>
- 12.1.1. The Company's position in its industry;
  - 12.1.2. Priority directions of the Company's activities;
  - 12.1.3. The report of the Supervisory Board on the Company's results in its principal areas of activity;
  - 12.1.4. Prospects for the Company's development;
  - 12.1.5. The report on the payment of declared dividends;
  - 12.1.6. The analysis of the principal risks associated with the Company's activities;
  - 12.1.7. A list of extraordinary transactions concluded by the Company during the reporting year, including the significant terms of those transactions and the governing body of the Company that approved these transactions;
  - 12.1.8. A list of related party transactions concluded by the Company during the reporting year including a list of related parties, the significant terms of such transactions and the governing the body of the Company that approved these transactions;
  - 12.1.9. The composition of the Supervisory Board, including information regarding changes in the composition of the Board that took place during the reporting year, as well as information on members of the Supervisory Board, including a brief summary of their personal data and information on their share ownership in the Company during the reporting year;
  - 12.1.10. Information on the General Director and Executive Board members including a brief summary of their personal data and information on their share ownership in the Company during the reporting year;
  - 12.1.11. Criteria for the determination of and the amount of remuneration and expenses for the General Director, each member of the Execu-

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<sup>68</sup> This article lists only legal requirements for the annual report of the Company. It does not include annual financial statements. Other information can be included in the annual report based on best practices. For more details, see the Model Annual Report in Annex 29 and FCSM Regulation No. 17/ps on Additional Requirements to the Procedure of Preparing, Calling, and Conducting the General Meeting of Shareholders, 31 May 2002, Section 3.6.

## Annex 2. A Model Company Charter

- tive Board, and each member of the Supervisory Board, and the aggregate amount of remuneration paid to all these persons and governing bodies during the reporting year;
- 12.1.12. Information regarding the Company's compliance with the recommendations of the FCSM Code;
  - 12.1.13. The Company's corporate governance policies and practices;
  - 12.1.14. \_\_\_\_\_;
  - 12.1.15. \_\_\_\_\_; and
  - 12.1.16. Any other information required to be included in the by-laws of the Company.
- 12.2. The annual report shall be signed by the General Director, Chief Accountant, and Supervisory Board members.<sup>69</sup>

### Article 13. Miscellaneous Provisions

- 13.1. The General Director shall ensure that the originals or, in lieu thereof, notarized copies of the following corporate records and documents be maintained by the Company as provided by the Law:
  - 13.1.1. The Charter and any amendments and additions thereto, which have been registered in the manner required by the Law, the decision on the establishment of the Company, and the certificate of state registration of the Company;
  - 13.1.2. Any documents confirming the Company's rights to property reflected on its balance sheet;
  - 13.1.3. Internal documents;
  - 13.1.4. Regulations of the Company's branch(es) or representative office(s);
  - 13.1.5. Corporate documents of subsidiaries and dependent companies, if any;
  - 13.1.6. Annual reports and financial statements;
  - 13.1.7. Share prospectuses;
  - 13.1.8. Accounting documents;
  - 13.1.9. Financial reporting documents presented to the appropriate governing bodies;

<sup>69</sup> FCSM Code, Chapter 7, Section 3.3.8.

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- 13.1.10. Minutes of the meeting of GMS, the Supervisory Board, the Revision Commission, and the Executive Board, as well as all documents approved by the General Director;
  - 13.1.11. A list of related parties of the Company indicating the number of shares of each type and class belonging to each such person;
  - 13.1.12. Reports of the Revision Commission, External Auditor, and state and municipal financial oversight bodies;
  - 13.1.13. Documents on the Company's employees; and
  - 13.1.14. Other documents as required by the Law.
- 13.2. The Charter shall become effective immediately upon registration with the relevant state agency.

## A TABLE OF CHARTER PROVISIONS

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
<b>1. General Provisions</b>				
1.1.	The legal form of the company (open or closed). <sup>70</sup>	<b>Mandatory</b> Law on Joint Stock Companies (LJSC), Article 7, Clause 1; Article 11, Clause 3.	LJSC, Article 7, Clause 1 states that the legal form of the company shall be reflected in the company name.	1.1.
1.2.	The duration of the company's activities.	<b>Optional</b> LJSC, Article 2, Clause 5.	«The Company is established for the period of _____ years.»	
1.3.	In the event the company is a subsidiary of another legal entity, the charter of the subsidiary can provide for binding instructions from the parent company to the subsidiary.	<b>Optional</b> LJSC, Article 6, Clause 3.		
<b>2. The Name and Location of the Company</b>				
2.1.	The location of the company.	<b>Mandatory</b> LJSC, Article 4, Clause 2; Article 11, Clause 3.		2.3.
2.2.	The name and abbreviation of the name of the company.	<b>Mandatory</b> LJSC, Article 11, Clause 3.		2.1. and 2.2.
2.3.	Information on branches and representative offices of the company.	<b>Conditional</b> LJSC, Article 5, Clause 6; Article 11, Clause 3.	«1. The Company has the following branches: 1.1. _____ (name and location); 1.2. _____ (name and location). 2. The Company has the following representative offices: 2.1. _____ (name and location); 2.2. _____ (name and location).»	2.4.
2.4.	Information that a single shareholder owns all shares of the company.	<b>Conditional</b> CC, Article 98; Clause 6.	«A single shareholder owns all shares of the Company.»	
<b>3. Charter Capital, Securities and Funds of the Company</b>				
3.1.	The amount of the charter capital.	<b>Mandatory</b> LJSC, Article 11, Clause 3.		4.1.

<sup>70</sup> This overview does not include provisions stipulated by the Law on Joint Stock Companies for Closed Joint Stock Companies.

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No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
3.2.	The amount of the reserve fund.	<b>Mandatory</b> LJSC, Article 35, Clause 1.	«The reserve fund may not be less than 5% of the charter capital of the Company.»	4.8.
3.3.	The amount of annual deductions to the reserve fund.	<b>Mandatory</b> LJSC, Article 35, Clause 1.	«The deductions may not be less than 5% of net profits until the attainment of the amount of the reserve fund as established by the charter of the Company.»	4.9.
3.4.	The number and nominal value of shares of each type and class issued by the company.	<b>Mandatory</b> LJSC, Article 11, Clause 3; Article 27, Clause 1.	The charter must provide information regarding preferred shares if it has issued them.	4.2.
3.5.	The opportunity to decrease the charter capital by purchasing and retiring a part of issued shares.	<b>Optional</b> LJSC, Article 29, Clause 1; Article 72, Clause 1.		4.5.
3.6.	The possibility for the company to buyback shares it has already issued.	<b>Optional</b> Article 72, Clause 2.	«The Company may buyback shares issued by the Company by the decision of the General Meeting of Shareholders [or, the Supervisory Board].»	
3.7.	The form of payment, other than cash, for the buyback by the company of shares issued by the company.	<b>Optional</b> LJSC, Article 72, Clause 4.		4.6.
3.8.	The formation of a special fund for employees from the net profits of the company.	<b>Optional</b> LJSC, Article 35, Clause 2.	This fund should be used to buy shares of the company and distribute them among employees free-of-charge.	
3.9.	The procedure for conversion, and the number of shares of each type and class into which the securities can be converted, as well as other terms of the conversion.	<b>Conditional</b> LJSC, Article 32, Clause 3.	The inclusion of this procedure is mandatory if the charter has a provision on the conversion of preferred shares of a specific class into common shares or preferred shares of another class.	
3.10.	The procedure for the conversion of securities other than shares into preferred shares.	<b>Conditional</b> LJSC, Article 37, Clause 1.	The inclusion of the procedure in the charter for the conversion of securities other than shares into preferred shares of the company is mandatory if the company has issued securities convertible into preferred shares.	
3.11.	The number and rights attached to authorized shares of each type and class.	<b>Optional</b> LJSC, Article 27, Clause 1.	The company cannot issue additional shares if the charter does not specify the number of authorized shares of each type and class.	4.3.
3.12.	The procedures and conditions for issuing authorized shares.	<b>Optional</b> LJSC, Article 27, Clause 1.		

## Annex 3. A Table of Charter Provisions

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
3.13.	The possibility to issue bonds upon the decision of a governing body other than the Supervisory Board.	<b>Optional</b> LJSC, Article 33, Clause 2.		
3.14.	The possibility to confer voting rights to shares owned by a company founder before these shares are paid in full.	<b>Optional</b> LJSC, Article 34, Clause 1.		
3.15.	The possibility to set restrictions on the types of property for the payment of shares.	<b>Optional</b> LJSC, Article 34, Clause 2.		
3.16.	Limitations regarding conducting closed subscriptions of shares in an Open Joint Stock Company.	<b>Optional</b> LJSC, Article 7, Clause 2. Article 39, Clause 2.		
<b>4. Rights and Obligations of Shareholders and Dividends</b>				
4.1.	The rights of shareholders attached to each type and class of company shares.	<b>Mandatory</b> LJSC, Article 11, Clause 3; Article 27, Clause 1.	The charter has to provide information regarding the rights attached to preferred shares only if it has issued them.	5.1, 5.2.
4.2.	The special right of the Russian Federation, a Russian region or a municipal entity to participate in the management of the company (Golden Share).	<b>Conditional</b> LJSC, Article 11, Clause 3; Article 12, Clause 4.	The charter has to provide information regarding the Golden Share if it exists.	
4.3.	The limitations on the total number and the total nominal value of shares that can be owned by one shareholder or limitations on the maximum number of votes that can be cast by one shareholder.	<b>Optional</b> LJSC, Article 11, Clause 3.	«No shareholder may possess more than _____ percent of the charter capital of the Company. No shareholder may exercise more than _____ votes on any issue on which the shareholder may vote.»	
4.4.	The amount of dividends to be paid on preferred shares of each class.	<b>Conditional</b> LJSC, Article 32, Clause 2.	The amount of dividends on preferred shares of each class must be specified in the charter if the company issues preferred shares.	5.2.2.
4.5.	The priority of payment of dividends and/or of the liquidation value to be paid on preferred shares of each class.	<b>Conditional</b> LJSC, Article 32, Clause 2.	The priority for the payment of dividends and/or of the liquidation value is mandatory if the company issues preferred shares of two or more classes with a dividend rate being specified for each of them.	5.2.1.
4.6.	The possibility to accumulate and subsequently pay unpaid or not fully paid dividends on preferred shares of a specific class until the specified date.	<b>Optional</b> LJSC, Article 32, Clause 2.	If the dates for accumulation and payment of dividends on preferred shares of a specific class are not specified by the charter, preferred shares of the said class are not cumulative.	5.2.3.



No.	Provisions	Primary References	Other References/Comments	Model Charter (Clause)
4.7.	The definition of property or assets other than money in which dividends can be paid.	<b>Optional</b> LJSC, Article 42, Clause 2.	«The Company may pay declared dividends in kind. The following assets can be used to pay dividends: 1. _____; 2. _____; and 3. _____»	
4.8.	The period (date of disbursement) for the payment of annual dividends.	<b>Optional and Recommended by the FCSM Code</b> LJSC, Article 42, Clause 4, FCSM Code, Chapter 9, Section 2.1.3.	The company must pay declared dividends within 60 days of the approval of the decision to declare dividends.	5.4.
4.9.	The authority of the Supervisory Board to reduce the remuneration of the General Director and Executive Board members in case of incomplete or late payment of dividends.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 9, Section 3.		5.6.
<b>5. The General Meeting of Shareholders</b>				
5.1.	The competence of the General Meeting of Shareholders (GMS).	<b>Mandatory</b> LJSC, Article 11, Clause 3.		7.7, 7.8.
5.2.	The list of issues on which the GMS must vote by a qualified majority of votes.	<b>Mandatory</b> LJSC, Article 11, Clause 3.		7.8.
5.3.	The procedures that must be followed when the company prepares and conducts GMS.	<b>Mandatory</b> LJSC, Article 11, Clause 3.		7.5, 7.10–7.19
5.4.	The period when the company must hold the Annual General Meeting of Shareholders (AGM).	<b>Mandatory</b> LJSC, Article 47, Clause 1.	«The AGM must be held at least two months after, but not later than six months after the end of the fiscal year.»	7.2.
5.5.	Names of print media where the notification of the GMS must be published.	<b>Conditional</b> LJSC, Article 52, Clause 1.		7.13.
5.6.	The use of electronic means to notify shareholders of the GMS.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 2, Section 1.1.3.		

## Annex 3. A Table of Charter Provisions

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
5.7.	The use of several print media to notify shareholders of the GMS.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 2, Section 1.1.4.		7.1.3.
5.8.	The list of decisions of the GMS upon the proposal of parties other than the Supervisory Board.	<b>Optional</b> LJSC, Article 49, Clause 3.	LJSC, Article 48, Clause 1, Paragraphs 2, 6, 14–19.	
5.9.	The procedure for approving procedural decisions during the GMS.	<b>Optional</b> LJSC, Article 49, Clause 5.	These procedures can also be specified in by-laws.	
5.10.	The possibility to set a number of votes greater than three-fourths majority vote of preferred shareholders of a specific class who participate in the GMS in order to approve a specific decision that affects the rights of preferred shareholders.	<b>Optional</b> LJSC, Article 32, Clause 4.		
5.11.	The possibility to set a number of votes greater than three-fourths majority vote of voting shares who participate in the GMS in order to approve a decision on the issuance of additional shares or securities convertible into shares by closed subscription, issuance of common shares being more than 25% of previously issued common shares, issuance of securities convertible into common shares and being more than 25% of previously issued common shares.	<b>Optional</b> LJSC, Article 39, Clauses 3 and 4.		
5.12.	The method for notifying persons who are entitled to participate in the GMS, including the media to be used, and the circulation of ballots for voting by means other than by registered mail.	<b>Optional</b> LJSC, Article 52, Clause 1.	See also LJSC, Article 60, Clause 2 for methods of distribution of voting ballots by means other than by registered mail as determined by the charter.	7.1.3.
5.13.	The list of documents, other than those specified by the Company Law, that must be made available to shareholders during the preparation for the GMS.	<b>Optional and Recommended by the FCSM Code</b> LJSC, Article 52, Clause 3; FCSM Code, Chapter 2, Section 1.3.1.		7.14–7.17.

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No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
5.14.	The list of information (materials) that must be made available to shareholders during the preparation for the GMS with respect to a specific agenda item.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 2, Section 1.3.1.		7.14–7.17
5.15.	The requirement to distribute the report of the Supervisory Board on financial performance of the company to shareholders before the GMS.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 2, Section 1.3.1.		7.4.11.
5.16.	The period within which the company must make the information (materials) available for shareholders during the preparation for the GMS.	<b>Optional</b> Regulation 17/ps of the Federal Commission for Securities Market, Section 3.8.	«The Company must provide the shareholders with information (materials) that the shareholders have the right to request during the preparation for the GMS within _____ [less than 5] days after the request has been received.»	
5.17.	The possibility for shareholders to have access to information (materials) related to the GMS through the internet or other means.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 2, Section 1.3.5.		
5.18.	The definition of the location for holding GMS.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 2, Section 1.6.1.		7.6.
5.19.	The period for submitting proposals for the AGM which is more than 30 days after the end of the financial year.	<b>Optional</b> LJSC, Article 53, Clause 1.	«A shareholder (or a group of shareholders) possessing at least 2% of voting shares of the Company may propose agenda items not later than _____ days after the end of the financial year.»	
5.20.	The period for proposing candidates to the Supervisory Board if the agenda of the Extraordinary General Meeting of Shareholders (EGM) includes elections with cumulative voting.	<b>Optional</b> LJSC, Article 53, Clause 2.	«A shareholder (or a group of shareholders) possessing at least 2% of voting shares may propose candidates for the Supervisory Board to be elected with cumulative voting during the EGM in _____ [less than 30] days before the EGM is held.»	

## Annex 3. A Table of Charter Provisions

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
5.21.	The period for holding an EGM to elect the Supervisory Board with cumulative voting which is less than 70 days after the request to conduct an EGM is made.	<b>Optional</b> LJSC, Article 55, Clause 2.	«A shareholder (or a group of shareholders) owning at least 10% of voting shares may request to hold an EGM to elect the Supervisory Board with cumulative voting within _____ [less than 70] days after the request to conduct the EGM.»	
5.22.	The period for holding a mandatory EGM which is less than 40 days after the request to conduct an EGM is made.	<b>Optional</b> LJSC, Article 55, Clause 3.	«The mandatory EGM must be convened by the Supervisory Board _____ [less than 40] days after the decision to conduct the mandatory EGM is approved by the Supervisory Board.»	
5.23.	The period for conducting a mandatory EGM to elect the Supervisory Board with cumulative voting which is less than 70 days after the request to conduct an EGM is made.	<b>Optional</b> LJSC, Article 55, Clause 3.	«The mandatory EGM to elect the Supervisory Board with cumulative voting must be convened by the Supervisory Board _____ [less than 70] days after the decision to conduct the mandatory EGM is approved by the Supervisory Board.»	
5.24.	The period for which the GMS can be postponed if the quorum does not exist on any of agenda items at the moment when the GMS must be opened.	<b>Optional</b> Federal Commission for the Securities Market (FCSM) Regulation 17/ps, Section 3.8.	«If a quorum of the GMS does not exist on any of the agenda items at the moment when the GMS must be opened, the Meeting can be postponed for _____ [less than 2] hours. The GMS can be postponed only once.»	
5.25.	The possibility to set the quorum at less than 30% of voting shares that participate in the reconvened GMS in companies with more than 500,000 shareholders.	<b>Optional</b> LJSC, Article 58, Clause 3.	«The quorum for the reconvened GMS exists if the shareholders possessing at least _____ [less than 30] percent of voting shares participate in the GMS when the Company has more than 500,000 shareholders.»	
5.26.	The requirement that the company distribute voting ballots in advance in companies with fewer than 1,000 shareholders with voting rights.	<b>Conditional</b> LJSC, Article 60, Clause 2.	The company must distribute voting ballots in advance of the GMS even if the company has fewer than 1,000 shareholders with voting rights.	
5.27.	The possibility to distribute voting ballots in advance to shareholders by using methods other than registered mail.	<b>Conditional</b> LJSC, Article 60, Clause 2.	«The Company distributes voting ballots to shareholders in advance of the GMS by _____ [e.g. faxing the ballots].»	
5.28.	The possibility to publish voting ballots in the print media accessible to all shareholders if the company has more than 500,000 shareholders.	<b>Conditional</b> LJSC, Article 60, Clause 2.	«The Company can publish voting ballots in _____ [name of the print media] for the GMS when the Company has more than 500,000 shareholders.»	
5.29.	The possibility to set the quorum not less than 20% of voting shares that participate in the reconvened GMS in companies with more than 500,000 shareholders.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 2, Section 2.3.		

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
5.30.	The requirement for candidates of the Supervisory Board, executive bodies, the Revision Commission, and the External Auditor to be present during the GMS when the agenda includes the election of these bodies.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 2, Section 2.1.4.		7.19.
5.31.	The procedures for monitoring the counting process during the GMS and the authority of persons in charge of counting the votes during the GMS.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 2, Section 2.4.2.	These procedures can also be specified in by-laws.	
<b>6. The Supervisory Board</b>				
6.1.	The authority of the Supervisory Board.	<b>Mandatory and recommended by the FCSM Code</b> LJSC, Article 11, Clause 3; FCSM Code, Chapter 3, Section 1.5.		8.1, 8.3.
6.2.	The list of Supervisory Board decisions to be approved by a qualified majority of votes.	<b>Mandatory</b> LJSC, Article 11, Clause 3.		8.10, 8.11.
6.3.	The possibility to delegate the authority of the GMS to the Supervisory Board to increase the charter capital by issuing additional shares.	<b>Optional</b> LJSC, Article 28, Clause 2.	«The Supervisory Board has the authority to increase the charter capital by issuing and placing additional shares authorized by the Company.»	8.3.30.
6.4.	The possibility to delegate the authority of the GMS to the Supervisory Board to approve the issue of bonds convertible into shares and other types of securities convertible into shares.	<b>Optional</b> LJSC, Article 33, Clause 2.	«The Supervisory Board has the authority to approve the issue of convertible bonds and other securities convertible into shares.»	
6.5.	The possibility to delegate the authority of the Supervisory Board to issue bonds and other types of securities to others than the Supervisory Board.	<b>Optional</b> LJSC, Article 33, Clause 2.	«The GMS has the authority to issue non-convertible bonds and other securities.»	
6.6.	The list of additional information on candidates that can be elected during the GMS.	<b>Optional</b> LJSC, Article 53, Clause 4.	These procedures can also be specified in by-laws.	8.16.
6.7.	The possibility to delegate the authority to prepare and conduct the GMS if the company does not establish a Supervisory Board.	<b>Optional</b> LJSC, Article 64, Clause 1.	In companies with less than 50 share holders of voting shares, the charter may provide that no Supervisory Board will be established. In this case, the charter has to appoint a person or a body that is responsible for preparing and conducting the GMS.	

## Annex 3. A Table of Charter Provisions

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
6.8.	The number of Supervisory Board members.	<b>Optional</b> LJSC, Article 66, Clause 3.	The number of Supervisory Board members can also be determined by the decision of the GMS.	8.2.
6.9.	The approval of the special procedure for carrying out non-standard operations falling outside the scope of the financial and business plans.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 8, Section 2.2.2.		
6.10.	The number of votes required to elect the Chairman of the Supervisory Board.	<b>Optional</b> LJSC, Article 67, Clause 1.	«The Chairman of the Supervisory Board must be elected by the _____ majority of Supervisory Board members [e.g., the GMS].»	
6.11.	The number of votes required to re-elect the Chairman of the Supervisory Board.	<b>Optional</b> LJSC, Article 67, Clause 1.	«The Chairman of the Supervisory Board must be re-elected by the _____ majority of Supervisory Board members [e.g., the GMS].»	
6.12.	The provision that a person other than the Chairman of the Supervisory Board should preside over the GMS.	<b>Optional</b> LJSC, Article 67, Clause 2.	The Chairman of Supervisory Board usually presides over the GMS unless the charter provides otherwise.	
6.13.	Quorum and independent directors.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 4.14.	The quorum of the Supervisory Board meeting should be set at a level so that the presence of non-executive and independent directors is required for a quorum to exist.	
6.14.	The quorum greater than the minimum set by the Company Law for Supervisory Board meetings.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 4.15.		8.7.
6.15.	The right of persons other than the Chairman of Supervisory Board, other Supervisory Board members, the Revision Commission, to convene a Supervisory Board meeting.	<b>Optional</b> LJSC, Article 68, Clause 1.		8.6.
6.16.	The procedure for preparing and conducting Supervisory Board meetings.	<b>Optional</b> LJSC, Article 68, Clause 1.	These procedures can also be specified in by-laws.	
6.17.	The possibility to approve decisions by the Supervisory Board by written consent.	<b>Optional and Recommended by the FCSM Code</b> LJSC, Article 68, Clause 1; FCSM Code, Chapter 3, Section 4.3.2.	These procedures can also be specified in by-laws.	8.1.4.

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
6.18.	The determination of the quorum for conducting valid Supervisory Board meetings, being not less than half the number of elected Supervisory Board members.	<b>Optional</b> LJSC, Article 68, Clause 2.	These procedures can also be specified in by-laws. See also LJSC, Article 83, Clause 2.	8.7.
6.19.	The right of a shareholder (or a group of shareholders) owning at least 2% of voting shares to request a Supervisory Board meeting.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 4.13.		8.6.
6.20.	The number of votes necessary to approve decisions of the Supervisory Board other than by a majority vote of participating directors.	<b>Optional</b> LJSC, Article 68, Clause 3.	These procedures can also be specified in by-laws.	8.10, 8.11.
6.21.	The right of the Chairman of the Supervisory Board to cast a decisive vote in case of tie vote.	<b>Optional</b> LJSC, Article 68, Clause 3.	«The Chairman of the Supervisory Board has a decisive vote in case of a tie vote.»	
6.22.	The possibility that written opinions of members not physically present during the Supervisory Board meeting be taken into consideration.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 4.3.1.		8.15.
6.23.	The possibility that written opinions of members not physically present during the Supervisory Board meeting be taken into consideration and considered for determining the quorum of the Board meeting.	<b>Optional</b> LJSC, Article 68, Clause 1.		
6.24.	The Supervisory Board's authority to approve procedures for internal control.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 1.2.1.		
6.25.	The Supervisory Board's authority to suspend the authority of the executive bodies.	<b>Optional and Recommended by the FCSM Code</b> LJSC, Article 69, Clause 4; FCSM Code, Chapter 3, Section 1.4.1.	The charter may provide that the authority of the Supervisory Board include the suspension of the General Director (external manager), as well as fixing the period of and reasons for such suspension.	

## Annex 3. A Table of Charter Provisions

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
6.26.	The Supervisory Board's authority to determine the terms and conditions of the contract with the General Director, Executive Board members, and an External Manager.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 1.4.3.		8.3.9.
6.27.	The definition of specific criteria for Supervisory Board candidates.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 2.1.3.		8.17.
6.28.	The provision that the Supervisory Board should consist of at least one-fourth or not less than three independent directors.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 2.2.3.	For the definition of independent directors, see FCSM Code, Chapter 3, Section 2.2.2.	
6.29.	The procedures and grounds for the election of new Supervisory Board members in case of early termination of the previous Supervisory Board.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 2.2.4.		
6.30.	A list of information on Supervisory Board candidates that must be disclosed to shareholders.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 2.3.1.		8.16.
6.31.	Fiduciary duties of directors.	<b>Optional and recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 3.1.1.		8.1.9.
6.32.	The possibility to establish Supervisory Board committees.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 4.7.1.		8.2.2.



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No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
<b>7. The Executive Bodies</b>				
7.1.	The list of issues on which the Executive Board members must vote by a qualified majority.	<b>Mandatory</b> LJSC, Article 11, Clause 3.		9.14, 9.15
7.2.	The provision that specifies the division of authority between the single member and collective executive bodies.	<b>Conditional</b> LJSC, Article 69, Clause 1.	If the company has both single member and collective executive organs, the charter has to specify the authority of each of these bodies separately.	9.2.
7.3.	The authority of the Supervisory Board to suspend the powers of the General Director elected by the GMS and appoint an interim General Director.	<b>Conditional</b> LJSC, Article 69, Clause 4.		
7.4.	The Supervisory Board's authority to suspend the powers of the External Manager and appoint an interim General Director.	<b>Conditional</b> LJSC, Article 69, Clause 4.		8.3.4.
7.5.	The restriction of the scope of authority of the interim General Director.	<b>Optional</b> LJSC, Article 69, Clause 4.		
7.6.	The authority "as defined in the most comprehensive manner possible" of the General Director and Executive Board members.	<b>Recommended by the FCSM Code</b> FCSM Code, Chapter 4, Section 1.1.1.		
7.7.	The definition of the quorum for a Executive Board meeting as not less than half the number of elected Executive Board members.	<b>Optional</b> LJSC, Article 70, Clause 2.	These procedures can also be specified in by-laws.	
7.8.	The definition of additional requirements for candidates to the positions of General Director, Executive Board members, heads of major divisions, the External Manager, and the remuneration of these parties.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 3, Section 1.4.2; FCSM Code, Chapter 4, Section 2.1.1; FCSM Code, Chapter 4, Section 2.1.8.		
7.9.	The provision that individuals who are members, officers, or employees of legal entities competing with the company should not be appointed or elected to the positions of General Director or Executive Board member.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 4, Section 2.1.3.		9.1.2.

## Annex 3. A Table of Charter Provisions

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
7.10.	The provision that the General Director is not engaged in activities other than the discharge of his duties related to the management of the current affairs of the Company.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 4, Section 2.1.4.		
7.11.	The procedures for the appointment of new members of the Executive Board, in particular in the case of death or incapacity of existing members.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 4, Section 2.1.6.		
7.12.	Prior to approval of the delegation of the powers of the General Director to an external manager, the Supervisory Board should determine the procedures applicable for selection of the External Manager.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 4, Section 2.1.9.	These procedures can also be specified in by-laws.	
7.13.	Fiduciary duties of Executive Board members and the General Director.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 4, Section 3.1.1.		9.16–9.18.
<b>8. The Corporate Secretary</b>				
8.1.	The procedure for appointing the Corporate Secretary and the definition of his responsibilities.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 5, Section 2.1.1.		10.3, 10.6.
8.2.	The provision that all corporate bodies and officers must assist the Corporate Secretary in discharging his duties.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 5, Section 1.6.1.		10.5.
8.3.	The definition of requirements for candidates for the position of Corporate Secretary.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 4, Section 2.2.1.		10.4.

No.	Provisions	Status/ Primary References	Other References/Comments	Model Charter (Clause)
<b>9. Extraordinary, Control and Related Party Transactions</b>				
9.1.	The possibility to apply the procedures for extraordinary transactions to other transactions defined by the charter.	<b>Optional and Recommended by the FCSM Code</b> LJSC, Article 78, Clause 1; FCSM Code, Chapter 6, Section 1.1.		
9.2.	The possibility to develop criteria for the definition of related party transactions in addition to those established by the Company Law.	<b>Optional</b> LJSC, Article 81, Clause 1.		
9.3.	The notification of non-controlling shareholders about their right to sell their shares to a shareholder (or a group of shareholders) owning at least 30% of common shares.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 6, Section 2.4.		
9.4.	The waiver of the duty of a shareholder (or a group of shareholders) owning at least 30% of common shares to make a mandatory offer.	<b>Optional</b> LJSC, Article 80, Clause 2.		
<b>10. The Revision Commission and External Audits</b>				
10.1.	The procedure for electing the Revision Commission.	<b>Mandatory</b> LJSC, Article 85, Clause 1.		11.1.
10.2.	Additional authorities of the Revision Commission.	<b>Optional</b> LJSC, Article 85, Clause 2.		11.4.
10.3.	The procedures for appointing employees of the Control and Revision Service (Internal Auditor) as defined by the FCSM Code.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 8, Section 1.1.1.		
10.4.	The definition of requirements for employees of the Control and Revision Service (Internal Auditor), members of the Audit Committee and the Revision Commission.	<b>Optional and Recommended by the FCSM Code</b> FCSM Code, Chapter 8, Section 1.3.2.		



## Annex 4

# A MODEL COMPANY-LEVEL CORPORATE GOVERNANCE CODE

APPROVED

By decision of the Supervisory Board  
of the Open Joint Stock Company «\_\_\_\_\_»

Supervisory Board Minutes

No. \_\_\_\_\_  
of \_\_\_\_\_ 200\_

Signature of the Chairman of the Supervisory Board

\_\_\_\_\_ dated this \_\_ day of \_\_\_\_\_, 200\_  
[The Company's Seal]

## CORPORATE GOVERNANCE CODE

of the Open Joint Stock Company  
«\_\_\_\_\_»

The city of \_\_\_\_\_  
\_\_\_\_\_, 200\_



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## Preamble

The purpose of this Company Code of Corporate Governance (hereinafter the Company Code) is to improve and systematize the governance of the Open Joint Stock Company «\_\_\_\_\_» (hereinafter the Company), make its governance more transparent, and demonstrate the Company's commitment to good corporate governance by developing and furthering:

- Responsible, accountable, and value-based performance management;
- Effective oversight, with executive bodies that act in the best interests of the Company and its shareholders, including minority shareholders, and seek to enhance shareholder value in a sustainable manner; and

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- Appropriate information disclosure and transparency, as well as an effective system of risk management and internal control.

By adopting, following, and updating the Company Code, the Company's charter, and by-laws on a regular basis, the Company confirms its desire to demonstrably lead and promote good corporate governance. To foster the confidence of its shareholders, employees, investors, and the general public, the Company Code goes beyond the established legal and regulatory framework in Russia today, and embraces both national and internationally recognized corporate governance principles and practices.

The Company's governing bodies and employees understand this Company Code as their joint obligation, and accordingly, obligate themselves to ensure that its provisions and its spirit are adhered to and acted upon throughout the Company [and its subsidiaries and dependent companies].

### Background and Profile

The Company's mission is to \_\_\_\_\_. Its objectives are to \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.<sup>71</sup>

The Company operates in the following business sectors: \_\_\_\_\_. It operates in the following regions: \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, as well as countries: \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

The Company is publicly listed on the \_\_\_\_\_ exchange.

## Part I. Commitment to Corporate Governance

### 1. Definition and Principles

The Company defines corporate governance as a set of structures and processes for the direction and control of companies, which involves a set of relationships between the Company's shareholders, Supervisory Board, and executive bodies with the

<sup>71</sup> This section is intended to provide an overview of the company's mission, objectives, and main areas of activity. It may also include other areas that may be of interest to the readers of the Company Code that will enable them to gain a broad understanding of the company, its business, geographical location, and rationale for drafting the Company Code.

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purpose of creating long-term shareholder value. It views corporate governance as a means to improve operational efficiency, attract financing at a lower cost, and build a better reputation. It also views a sound system of governance as an important contribution to the rule of law in the Russian Federation, and an important determinant of the role of the Company in a modern economy and society.

The Company Code sets out the Company's corporate governance framework and is based on Russian legislation, the Federal Commission for the Securities Market's Code of Corporate Conduct (FCSM Code), as well as internationally recognized best practices and principles, such as the OECD Principles of Corporate Governance.

The Company's corporate governance framework is based on the following principles:

- **Accountability:** This Company Code establishes the Company's accountability to all shareholders and guides the Company's Supervisory Board in setting strategy, and guiding and monitoring the Company's management.
- **Fairness:** The Company obligates itself to protect shareholder rights and ensure the equitable treatment of all shareholders, including minority [and foreign] shareholders. All shareholders are to be granted effective redress for violation of their rights through the Supervisory Board [or a shareholder rights committee, if established].
- **Transparency:** The Company is to ensure that timely and accurate disclosure is made on all material matters regarding the Company, including the financial situation, performance, ownership, and governance of the Company, in a manner easily accessible to interested parties.
- **Responsibility:** The Company recognizes the rights of other stakeholders as established by laws and regulations, and encourages co-operation between the Company and stakeholders in creating sustainable and financially sound enterprises.

The Company, its key officers and all employees act in accordance with all applicable laws and regulations, and, furthermore, shall comply with ethical standards of business conduct as defined by this Company Code, the FCSM Code and \_\_\_\_\_ [name other source of ethical standards].

## 2. Internal Corporate Documentation

This Company Code is principle-based. More specific corporate governance structures, processes, and practices are regulated in the Company's charter and the by-laws for the:

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- General Meeting of Shareholders (GMS);
- Supervisory Board;
- Executive bodies;
- The Audit Commission; and
- \_\_\_\_\_.<sup>72</sup>

This set of internal corporate documents follows legal and regulatory requirements, and incorporates the main provisions of the FCSM Code and internationally recognized corporate governance practices. The above-mentioned corporate documents are published on the Company's website.

### 3. General Governance Structure

The Company has the following governing and other bodies:

- **The General Meeting of Shareholder.** The highest governing body of the Company allows the shareholders to participate in the governance of the Company;
- **The Supervisory Board** is responsible for the strategic direction of the Company, and the guidance and oversight of management; [the Company's Supervisory Board may also establish committees on audit, corporate governance, nominations and remuneration, strategic planning and finance];
- **The General Director and the Executive Board** carry out the day-to-day management of the Company and implement the strategy set by the Supervisory Board and shareholders;
- **The Revision Commission** oversees the financial and economic activities of the Company and reports directly to the GMS;
- **The Corporate Secretary** ensures that the governing bodies follow internal rules and external regulations to facilitate clear communications between the governing bodies, and acts as an adviser to directors and senior executives;
- **The Internal Auditor** develops and monitors internal control procedures for the business operations of the Company. The Internal Auditor reports di-

<sup>72</sup> Best practice calls for additional by-laws for the Corporate Secretary; for all Supervisory Board committees established; on internal control; on the company's dividend policy; on risk management; on information disclosure and transparency; and on corporate governance policies in groups of companies. The company may also wish to draft a company code of ethics.



rectly to the Supervisory Board [through the Audit Committee], and reports administratively to the General Director.

#### **4. Compliance with and Adherence to Corporate Governance Policies and Practices**

The Company's \_\_\_\_\_ is responsible for ensuring the development of, compliance with, and periodic review of corporate governance policies and practices in the Company.<sup>73</sup>

### **Part II. Good Board Practices**

The Company views a vigilant, professional, and independent Supervisory Board as essential for good corporate governance. The Supervisory Board cannot substitute for talented professional managers, nor change the economic environment in which the Company operates. It can, however, influence the performance of the Company through its supervision, guidance, and control of management in the interests and for the benefit of the Company's shareholders. Executive bodies also play a crucial role in the governance process. The effective interaction between governing all bodies, and a clear separation of authorities is key to sound corporate governance.

#### **1. At the Supervisory Board Level**

**a. Authority.** The Supervisory Board's scope of authority is set forth in the Company's charter, in conformity with relevant legislation and the recommendations of the FCSM Code.

**b. Size.** The Supervisory Board [upon the recommendation of its corporate governance committee, if established] recommends the appropriate size of the Supervisory Board. The Supervisory Board's size is fixed in the Company's charter. Achieving the needed quality and mix-of-skills will be the primary consideration in arriving at the overall number.

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<sup>73</sup> Good practice suggests that the Corporate Secretary develop and the Supervisory Board's Corporate Governance Committee approve these policies.

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**c. Election, Term, and Dismissal.** Directors are elected for a one-year term. The Company uses cumulative voting to elect its directors.

The Supervisory Board does not believe it is in the best interests of the Company or its shareholders to introduce term limits. Experienced directors, familiar with the Company and the industry in which it operates, are key to providing proper guidance.

The GMS may only dismiss all directors. Grounds for dismissal are included in the Company's charter [or by-law for the Supervisory Board].

**d. Composition and Independence.** The composition of the Supervisory Board is determined in such a way that combines the representatives of various shareholder groups, including minority shareholders.

The Supervisory Board's composition, competencies, and mix-of-skills are adequate for oversight duties, and the development of the Company's direction and strategy. Each individual director has the experience, knowledge, qualifications, expertise, and integrity necessary to effectively discharge Supervisory Board duties and enhance the Board's ability to serve the long-term interests of the Company and its shareholders. The Supervisory Board has a broad range of expertise that covers the Company's main business, sector, and geographical areas, and includes at least \_\_\_\_\_ experienced financial experts who are non-executive, independent directors.<sup>74</sup> A full and complete set of information on the directors' qualifications is set forth and annually reviewed by the Supervisory Board [upon the recommendation of its corporate governance committee] and fixed in the Company's charter or by-laws.

The law prohibits the General Director from being the Chairman of the Supervisory Board. To enhance unbiased oversight, the Company believes that a non-executive director should chair the Supervisory Board.

The Company's Supervisory Board is composed of not more than 25% of executive directors who are employees of the Company.

To ensure the impartiality of decisions and to maintain the balance of interests among various groups of shareholders, \_\_ [number or percentage] of the Supervisory Board's members are independent directors. The Company defines those

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<sup>74</sup> Good practice suggests that the Supervisory Board consist of at least two such persons. Should this not be possible, then the Supervisory Board shall hire an outside, independent adviser.

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directors who have no material relationship with the Company beyond their directorship as independent. The Supervisory Board ascertains which members are to be deemed independent during the first Supervisory Board meeting. Criteria for determining director independence shall be based on the FCSM Code, complemented by other internationally recognized definitions, and specified in the Company's charter and annual report.

The Company recognizes that directors that have served for longer than seven years shall not be considered independent directors.

**e. Structure and Committees.** The Company has established the following Supervisory Board committees:

- The Audit Committee;
- \_\_\_\_\_;
- \_\_\_\_\_; and
- Other committees deemed necessary by the Supervisory Board.<sup>75</sup>

All committees have by-laws containing provisions on the scope of authority, competencies, composition, working procedures, as well as the rights and responsibilities of the committee members.

Each committee is to provide provisional consideration of the most important issues that fall within the authority of the Supervisory Board. After each of its meetings, the committee shall report on the meeting to the Supervisory Board.

**f. Working Procedures.** The Supervisory Board meets according to a fixed schedule, set at the beginning of its term, which enables it to properly discharge its duties. As a rule, the Supervisory Board shall meet at least \_\_\_ times a year.<sup>76</sup>

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<sup>75</sup> Other Supervisory Board committees recommended by the FCSM Code and generally-accepted best practices cover areas in which there is an especially large potential for conflicts of interest and the need for independent thought, in particular, the nominations and remuneration committee. Companies may eventually wish to consider adding further committees on corporate governance, strategic planning and finance, shareholder rights, ethics, and/or corporate conflicts resolution. However, companies should be prudent in the establishment of committees. Excessive numbers of committees may be costly, difficult to manage, and may fragment Board deliberations.

<sup>76</sup> Good practice suggests that four to ten Supervisory Board meetings per year are sufficient to properly discharge the Board's duties.

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Non-executive directors meet separately from executive members at least once a year.

Detailed procedures for calling and conducting Supervisory Board meetings are defined in the Supervisory Board's by-law. All directors are provided with a concise but comprehensive set of information [by the Corporate Secretary] in a timely manner, concurrently with the notice of the Board meeting, but no less than \_\_\_\_ days before each meeting.<sup>77</sup> This set of documents is to include: an agenda; minutes of the prior Board meeting; key performance indicators, including relevant financial information prepared by management; and clear recommendations for action.

The Supervisory Board keeps detailed minutes of its meetings that adequately reflect Board discussions, signed by the Chairman [and the Corporate Secretary], and include voting results on an individual basis. The Company keeps transcripts (verbatim reports) of important Board decisions, such as the approval of extraordinary transactions.

**g. Self-Evaluation.** The Supervisory Board conducts a yearly self-evaluation. This process is to be organized by \_\_\_\_\_ [e.g. the corporate governance committee] and the results are to be discussed by the full Supervisory Board. Independent consultants may also be invited to assist the Supervisory Board in this process.

**h. Training and Access to Advisers.** The Company offers an orientation program for new directors on the Company, its business, and other issues that will assist them in discharging their duties. The Company also provides general access to training courses to its directors as a matter of continuous professional education. The Supervisory Board and its committees shall also have the ability to retain independent legal counsel, accounting, or other consultants to advise the Supervisory Board when necessary.

**i. Remuneration.** The remuneration of non-executive directors is competitive and is comprised of an annual fee (part of which can be paid in the form of shares in lieu of cash), a meeting attendance fee, and an additional fee for the chairmanship of committees or the Supervisory Board itself. The remuneration package shall, however, not jeopardize a director's independence. Executive directors are not paid beyond their executive

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<sup>77</sup> Good practice suggests around two weeks.

remuneration package. The Supervisory Board [nominations and remuneration committee] periodically reviews the remuneration paid to directors. All directors sign a contract with the Company. The Company publicly discloses the remuneration of each director on an individual basis.

The Company will not provide personal loans or credits to its directors.

Further, the Company shall not provide stock options to its directors unless approved by the GMS.

**j. Duties and Responsibilities.** Directors act in good faith, with due care and in the best interests of the Company and all its shareholders — and not in the interests of any particular shareholder — on the basis of all relevant information. Each director is expected to attend all Supervisory Board and applicable committee meetings.

The Supervisory Board must decide as to whether its directors can hold positions in the governing bodies of other companies. The Company shall not prohibit its directors from serving on other Supervisory Boards. Directors are expected to ensure that other commitments do not interfere in the discharge of their duties.

Directors shall not divulge or use confidential or insider information about the Company.

Directors shall abstain from actions that will or may lead to a conflict of interest with the Company. When such a conflict exists, directors shall disclose information about the conflict of interests to the other directors and shall abstain from voting on such issues.

## 2. At the Executive Body Level

The Company understands that the day-to-day management of the Company requires strong leadership from the General Director. It also recognizes the challenge and complexity of running a Company and believes in teamwork, a collective rather than individual approach. The Company has thus established an Executive Board, chaired by the General Director.

**a. Authority.** The General Director and the Executive Board carry out the Company's day-to-day management, implementing its goals and objectives, and carrying out its strategy.

## Annex 4. A Model Company-Level Corporate Governance Code

**b. Size.** The General Director [in close cooperation with the nominations and remuneration committee, if established] proposes to the Supervisory Board an appropriate number of Executive Board members. The size of the Executive Board is fixed in the Company's charter upon the recommendation of the Supervisory Board. Achieving the needed quality and mix of executives will be the primary consideration in arriving at the overall number.

**c. Election, Term, and Dismissal.** The Supervisory Board [or the GMS] elects the General Director for a \_\_\_\_\_ year term.<sup>78</sup> The General Director in turn submits proposals for Executive Board membership to the Supervisory Board for approval. Other Executive Board members are appointed for a \_\_\_\_\_ year term.

The Supervisory Board may dismiss the General Director. The Supervisory Board may also dismiss Executive Board members, upon close coordination with the General Director. Grounds include, among other things, providing false information to the Supervisory Board, willful neglect of his duties and responsibilities, or conviction of a criminal act.

**d. Composition.** The Executive Board's composition, competencies, and mix-of-skills are suited to the effective and efficient running of the Company's day-to-day operations. Each Executive Board member, including the General Director, has the experience, knowledge, qualifications, and expertise necessary to effectively discharge his duties.

All Executive Board members have the:

- Trust of the Company's shareholders, directors, other managers, and employees;
- Ability to relate to the interests of all shareholders and to make well-reasoned decisions;
- Professional expertise and education to be an effective manager;
- Business experience, knowledge of national issues and trends, and knowledge of the market, products, and competitors; and
- Capacity to translate knowledge and experience into solutions that can be applied to the Company.

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<sup>78</sup> Good practice suggests that the Supervisory Board elect the General Director and the other Executive Board members upon the recommendation of the General Director. The IFC's RCGP recommends a term ranging from three to five years, following an initial one-year term.

**e. Working Procedures.** The Executive Board meets regularly, and agenda issues are communicated in advance. The working procedures of the Executive Board are specified in the by-laws for the Executive Board.

**f. Succession Planning.** The Supervisory Board is to adopt a succession plan that outlines how it will effectively deal with the temporary or permanent loss of senior executives. To assist in this process, the General Director is to provide the Supervisory Board with a list of individuals best suited to replace the Company's key executives, including the position of the General Director.

**g. Remuneration and Evaluation.** The amount of remuneration of the General Director and members of the Executive Board is set by the Supervisory Board, and approved by the GMS. The remuneration shall have a fixed and variable component, and the latter is tied to key performance indicators, in-line with the input into the Company's long-term development and creation of shareholder value.

The Company will not provide personal loans or credits to its executive officers.

**h. Duties and Responsibilities.** The General Director and Executive Board members shall act in good faith and with due care in the best interests of the Company and all its shareholders — and not the interests of a particular shareholder — on the basis of all relevant information.

The General Director and Executive Board members shall abstain from actions that will or may lead to a conflict between their and the Company's interests. When such a conflict exists, members of the executive bodies shall disclose information about the conflict of interests to the Supervisory Board, and shall abstain from deliberating and voting on such issues.

### **3. Interaction Between the Supervisory Board and Executive Bodies and the Role of the Corporate Secretary**

Good corporate governance provides for an open dialogue between the Company's Supervisory Board and executive bodies. The Company has thus developed a procedure for periodic reports (information briefs) of the General Director and Executive Board to the Supervisory Board, as specified in the Executive Board's by-law. The Supervisory Board shall further have unrestricted access to the Company's management and its employees. The Corporate Secretary plays a key, overall role in facilitating this process.

## Annex 4. A Model Company-Level Corporate Governance Code

The Company's Corporate Secretary is employed on a full-time basis. The Corporate Secretary possesses the necessary qualifications and skills to ensure that the governing bodies follow internal rules and external regulations; facilitates clear communications between the governing bodies in-line with the Company's charter, by-laws, and other internal rules; and keeps the Company's key officers abreast of the latest corporate governance developments.

### Part III. Shareholder Rights

All shareholders have the right to participate in the governance and the profits of the Company. All rights are regulated in the Company's charter and by-laws.

#### 1. General Meetings of Shareholders

The Company has a by-law for the GMS that provides a detailed description of all the procedures for preparing, conducting, and making decisions at the GMS.

**a. Preparation.** Every shareholder that holds voting shares is entitled to participate and vote during the GMS, and receive advance notification, an agenda, as well as accurate, objective, and timely information sufficient for making an informed decision about the issues to be decided at the GMS. The Company's executive bodies will be responsible for this process, which is to be implemented by the Corporate Secretary.

The Company has a fair and effective procedure for submitting proposals to the agenda of the GMS, including proposals for the nomination of Supervisory Board members. The agenda of the GMS is not changed after the Supervisory Board approves it.

**b. Conducting the GMS.** The Company takes all the steps necessary to facilitate the participation of shareholders in the GMS and vote on the agenda items.

The venue of the GMS is easily accessible for the majority of shareholders. Registration procedures are convenient and allow for quick and easy admittance to the GMS.

The Company's executive bodies are to help shareholders exercise their voting rights in the event they are unable to physically attend the GMS. The executive bodies will do so by providing shareholders with a power of attorney form, based



upon which the shareholder will have an opportunity to instruct his proxy on how to vote on agenda items.

The Company ensures that members of the Supervisory Board, executive bodies, Revision Commission, and External Auditor are present during the GMS to answer questions. Each shareholder has the right to take the floor on matters on the agenda, and submit relevant proposals and questions. The chairman of the GMS conducts the meeting professionally, fairly, and expeditiously.

Voting is conducted by ballot. The Company has effective shareholder voting mechanisms in place (e.g. super-majority voting) to protect minority shareholders against unfair actions, as regulated in its charter and by-law for the GMS. The procedures for counting votes at the GMS are transparent and exclude the possibility of manipulating voting results. The External Registrar of the Company shall also fulfill the functions of the Counting Commission.

**c. Results.** The voting results and other relevant materials are distributed to shareholders, either at the end of the GMS or very soon after the GMS is held, as well as to the general public by posting them on the Company's internet site and publishing them in the mass media in a timely manner.

## 2. (Minority) Shareholder Rights Protection

The Company has a system of registering shareholder complaints and effectively regulating corporate disputes [through the Supervisory Board's shareholder relations committee].

**a. Supervisory Board representation.** Minority shareholders have \_\_\_ [number] identifiable representatives on the Supervisory Board.<sup>79</sup>

**b. External Registrar.** The Company engages an independent External Registrar to maintain the shareholder register. The Company ensures a reliable and efficient ownership registration system of shares and other securities through the selection and appointment of an independent External Registrar that has proper technical equipment and an excellent reputation.

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<sup>79</sup> Good practice suggests that the Supervisory Board's composition reflect the shareholding structure, but that the Supervisory Board have at least one identifiable minority shareholder representative.

## Annex 4. A Model Company-Level Corporate Governance Code

**c. Takeover policy.** The Company has a clearly articulated and enforceable policy in place that protects the rights of minority shareholders in special circumstances, such as a change of control.

### 3. Related Party Transactions

The Company avoids related party transactions. When this is not possible, the Company discloses all relevant information on related party transactions including information on the affiliated parties and the affiliation of directors and members of other governing bodies.

### 4. Dividend Policy

The Company has formally developed and follows a written dividend policy. This dividend policy is publicly disclosed on the Company's website.

The procedure for determining the amount of dividends on preferred shares does not violate other shareholder rights. The Company's dividend policy:

- Establishes a transparent, understandable, and predictable mechanism for determining the amount of the dividends;
- Ensures that the dividend payment procedure is easy and efficient; and
- Provides for the complete and timely payment of declared dividends.

## Part IV. Information Disclosure and Transparency

Transparency, and timely and accurate information disclosure is a key corporate governance principle for the Company.

### 1. Disclosure Policies and Practices

The Company discloses and provides easy access to all material information, including the financial situation, performance, ownership, and the governance structure of the Company to shareholders free of charge. The Supervisory Board prepares and approves a by-law on information disclosure and makes it publicly available on the Company's internet site. The Company publishes a comprehensive annual report that includes a corporate governance section, and prepares

other reports, such as the prospectus, quarterly reports, and material facts reports. The Company discloses its corporate governance practices, corporate events calendar, and other material information on its website in a timely manner.

The Company takes measures to protect confidential information as defined in its by-law on information disclosure. Any information obtained by the Company's employees and the members of the governing bodies may not be used for their personal benefit.

### 2. Financial Reporting

The Company keeps records and prepares a full set of financial statements in accordance with Russian Accounting Standards. [In addition, the Company prepares its accounts in accordance with International Financial Reporting Standards (IFRS) [or U.S. GAAP] and discloses these in its regulatory filings, including the annual report, and on the internet.]

Detailed notes accompany financial statements so that the users of the statements can properly interpret the Company's financial performance. A management discussion and analysis (MD&A), as well as the opinions of the External Auditor and Revision Commission, shall complement all financial information.

[The company produces consolidated accounts when required by accounting standards.]

### 3. Internal Audit and Control

**a. The Revision Commission.** The Company's Revision Commission is to meet at least \_\_\_ [*number*] times a year to carry out its duties as specified by law and its by-laws. The Revision Commission shall consist of independent members, of which at least \_\_\_ [*number*] members are experienced financial experts. Its scope of authority and activity goes beyond legislative requirements.<sup>80</sup>

**b. The Internal Auditor.** The Company has an Internal Auditor [or office of the Internal Auditor] that is responsible for the daily internal control of the

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<sup>80</sup> Supervisory Board audit committees are becoming increasingly common internationally. Good practice suggests that the Company strengthen the role of the Supervisory Board's Audit Committee and make sure that it complements the functions of the Revision Commission. Good practice suggests that the Revision Commission meet at least four times per year, and that it be composed of at least one financially literate member.

## Annex 4. A Model Company-Level Corporate Governance Code

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Company's finances and operations. The Internal Auditor is staffed by a highly respected and reputable person[s], and reports to the Supervisory Board [or Audit Committee] functionally and to the General Director administratively.<sup>81</sup> The Internal Auditor's authority, composition, working procedures, and other relevant matters are regulated in its by-law.

**c. The Supervisory Board's Audit Committee.** The Audit Committee is to focus on three key areas: financial reporting, risk management, and internal and external audit. This committee is to be chaired by an independent director and composed of non-executive directors, each of which is recognized for his or her financial literacy. Its exact authority, composition, working procedures, and other relevant matters are regulated in its by-laws.

### 4. The External Audit

An External Auditor audits the Company's financial statements. The External Auditor is a publicly recognized independent auditing firm, where independent means independence from the Company, the Company's management, and major shareholders. The Company ensures that the Audit partner is periodically rotated. The remuneration of the auditor is disclosed to shareholders. The External Auditor is selected by the GMS following an open tender and upon the recommendation of the Supervisory Board.

### 5. Ownership Structure

The Company ensures that beneficial owners of five percent or more of the voting shares are disclosed. Any corporate relations in case of groups of companies are also clearly identifiable and disclosed to the public.

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<sup>81</sup> Good practice suggests that the Internal Auditor be a member of the Institute of Internal Auditors (see also: <http://www.iaa-ru.ru>).



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Annex 5  
**A MODEL CODE OF ETHICS**

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APPROVED  
By decision of the Supervisory Board  
of the Open Joint Stock Company «\_\_\_\_\_»  
Supervisory Board Minutes  
No. \_\_\_\_\_  
of \_\_\_\_\_ 200\_

Signature of the Chairman of the Supervisory Board

\_\_\_\_\_ dated this \_\_ day of \_\_\_\_\_, 200\_  
[The Company's Seal]



**CORPORATE CODE OF ETHICS**

of the Open Joint Stock Company  
«\_\_\_\_\_»

The city of \_\_\_\_\_  
\_\_\_\_\_, 200\_



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## Preamble

The purpose of this Code of Ethics is to:

- Commit the Open Joint Stock Company «\_\_\_\_\_» (hereinafter the Company) to the highest standards of ethical behavior;
- Encourage ethical conduct and sanction misconduct within the Company; and
- Develop an ethical culture within the Company that is based on such standards and conduct, and that will be applied by directors, managers, and employees alike.

By adopting, following, and updating this Code of Ethics on a regular basis, together with the Company's corporate governance code, charter, and by-laws, the Company confirms its desire to demonstrably lead and promote good ethical behavior. Ethics is not simply a question of obeying the law. Consequently, and to foster the confidence of its shareholders, employees, investors, and the public, this Code of Ethics goes beyond the legal and regulatory framework prevalent in

Russia today. It embraces both national and internationally recognized principles and practices.<sup>82</sup>

The Company's governing bodies and employees understand this Code of Ethics as their joint obligation, and obligate themselves to ensure that its spirit and provisions are respected and acted upon throughout the Company [and its subsidiaries and dependent companies].

This Code of Ethics is reviewed and updated on an annual basis and published internally via the Company's intranet site, as well as on the Company's internet site under [www.\\_\\_\\_\\_\\_.ru](http://www._____.ru).

## Part I. The Company's Values

In all internal and external relationships, the Company demonstrates its commitment to [insert Company's values]:<sup>83</sup>

- Obey the Law;
- \_\_\_\_\_; and
- \_\_\_\_\_.

## Part II. The Company's Ethical Principles

The Company is committed to act ethically in all aspects of its business.

The Company's ethical standards are based on the following principles:

- Honesty;
- Integrity;
- Fairness; and
- Transparency.

<sup>82</sup> This ethics code was prepared using the "Basic Guidelines for Codes of Business Conduct" as a resource guide. A copy of these guidelines can be obtained in "Business Ethics: A Manual for Managing a Responsible Business Enterprise in Emerging Market Economies" and found under [www.mac.doc.gov/ggp](http://www.mac.doc.gov/ggp). Internationally recognized principles include, among others, the Sullivan Principles ([www.globalsullivanprinciples.org](http://www.globalsullivanprinciples.org)), UN Principles on Corporate Ethics ([www.unglobalcompact.org](http://www.unglobalcompact.org)), Coalition for Environmentally Responsible Economies ([www.ceres.org](http://www.ceres.org)), ILO standards on labor issues ([www.ilo.org](http://www.ilo.org)), the OECD Conventions on Bribery and Corruption, and OECD Guidelines for Multi-national Enterprises ([www.oecd.org](http://www.oecd.org)).

<sup>83</sup> Company values often focus on delivering quality products and services; leadership (in terms of innovation, and research and development); promoting shareholder value; protecting the environment; satisfying customers; acting with honesty, integrity, and respect for people; etc.

Similarly, the Company expects the same in its relationships with all those with whom it does business.

The Company's ethical standards focus on the following shareholders: employees, customers, business partners, government, society, and the community at large.<sup>84</sup> These ethical standards shall also apply to all business areas [for all subsidiaries and dependent companies both within and outside of Russia].

The Company's ethical standards are based on:

- Respecting the rule of law, and Russian laws and regulations;
- Respecting human rights;
- Conducting business with integrity and fairness, renouncing bribery and corruption or similar unacceptable business practices, and not giving or accepting gifts and entertainment unless they fall under business custom, and are immaterial and infrequent;
- Creating mutual advantage in all the Company's relationships;
- Building and fostering trust; and
- Demonstrating respect for the community the Company operates in, as well as for the environment.

The Company shall develop specific, measurable targets for improving ethical behavior.

### **Part III. Ethical Standards for the Company's Relationship with its Stakeholders<sup>85</sup>**

#### **1. Employees and Officers**

The Company values its employees as the keystone to success. The Company is thus committed to treating all employees with dignity, trust, and respect, and to

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<sup>84</sup> A company's areas of focus will depend largely on the industry in which it operates and its business sector. Thus, a company in the banking sector may wish to focus on issues different than those of a company in the oil sector (e.g. financial control, insider trading, and/or money laundering vs. environmental protection). Areas of focus can be structured around topics and/or relationships. Topics include health, safety, and environmental concerns; bribery and corruption; legality; conflicts of interest; human rights; gifts and entertainment; control and finance; etc. Relationships can include relations with employees, customers, business partners, suppliers, joint-venture partners, etc.

<sup>85</sup> Among the company's stakeholders are its shareholders. Shareholders are not treated explicitly in this document since shareholder issues are addressed more fully in the context of corporate governance. Detailed guidance can be found in other Annexes of this Manual.



building a long-term relationship based on Russian labor law and the respect of human rights.

The Company will not employ child labor.

It is the Company's policy to provide for and regularly improve upon a healthy, safe, and secure working environment for its employees.

Conflicts of interests can actually, or at least can appear to, compromise the judgment or objectivity of the Company's employees and officers. Conflicts of interest are to be avoided. To the extent that they cannot be avoided, employees and officers should inform supervisors and take themselves out of the decision-making process with respect to the conflict of interests.

The Company is an equal opportunity employer. Its recruitment, promotion, and compensation policy is based on merit and is free of discrimination. Clear and transparent policies have been developed and put into practice.

Discrimination or harassment at the workplace will not be tolerated. Charges of discrimination or harassment will be thoroughly investigated and dealt with by the relevant officer within the Company [Company's ethics officer and/or the Supervisory Board's ethics committee].

Employees are recognized and rewarded for their performance, based on performance objectives, and constructive and regular feedback through face-to-face meetings.

The Company has in place a training program, accessible to all employees, which encourages individuals to formulate personal development plans and provides for coaching, mentoring, and formal skill-enhancing training.

The Company prohibits the use of confidential and insider information by all officers and employees, and has developed a detailed procedure to effectively deal with insider trading and insider information.

In the interests of transparency, the Company has regular communications and holds consultations with employees regarding such topics as employment conditions and other issues that may affect the interests of employees.

## 2. Customers

Customer satisfaction is an overriding concern of the Company. Safe, high quality products and services, fair pricing, and appropriate after-sales service define the Company's relations with its customers.

The Company always seeks to deliver on its promises.

### 3. Business Partners

The Company believes that a long-term relationship with its business partners (suppliers, contractors, participants in joint ventures, and \_\_\_\_\_) founded on respect, trust, honesty, and fairness is vital to its success.

The Company will encourage its business partners to share its ethical standards.

The Company will fulfill its contractual obligations and respect its business relations. Thus:

- Contractual negotiations shall be conducted based on mutual respect and benefit;
- Business relations shall be based on high performance standards, delivering in a timely and qualitative manner, prompt settlement of bills, and \_\_\_\_\_; and
- In case of a commercial dispute, the Company will negotiate in good faith to arrive at a consensus and a fair solution.

The Company is committed to complying fully with the Russian Law on Anti-money Laundering and only conducts business with reputable suppliers, business customers, and other partners who are involved in legitimate business activities and whose funds are derived from legitimate sources.

### 4. Government

The Company will pay its taxes in full and in a timely manner.

The Company abides by all federal and regional regulations, including voluntary codes and guidelines such as the Federal Commission for the Securities Market's Code of Corporate Conduct (FCSM Code), and adheres to both the letter and the spirit of such codes and guidelines.

The Company has legally obtained the licenses required to do business.

The Company seeks to build and manage a sound relationship with governmental authorities on an arm's length basis. No attempts to improperly influence governmental decisions shall be made, and the Company will not offer, pay, solicit, or accept bribes in any form or shape, either directly or indirectly, in its dealings with the government, administration, or courts. Transparent procedures regarding transactions engaged in by the Company with any government agency or official, or in dealings with any company owned or controlled by a government agency or official, shall be established to this end.

## 5. Society and the Wider Community

The Company views itself as an integral part of the community in which it operates and is committed to a sound relationship built on respect, trust, honesty, and fairness.

The Company is committed to creating jobs and developing local talent when this is economically possible.

The preservation of the environment is of great importance to the Company. The Company strives to minimize the environmental impact from its activities by reducing waste, emissions, and discharges, and by using energy efficiently. All operations and activities will be carried out according to the highest standards of care and in line with internationally recognized principles.<sup>86</sup>

The Company is committed to help the local community through a variety of charities and foundations, educational organizations, and similar institutions

Non-governmental Organizations (NGOs) are a key element to any society and the Company seeks to build constructive relationships with such organizations to build a better society, and maintain a cleaner and safer environment for all.

The Company promises to discuss and consider the specific developmental needs of the communities in which it operates, through a process of regular, open dialogue.

## Part IV. Implementation

### 1. Means to Obtain Advice

Many business decisions are complex and may involve dilemmas that require judgment to make an ethical choice. In cases of uncertainty, all officers and employees are expected to act responsibly and raise the ethical dilemma with their managers. Should this not lead to a satisfactory solution, the ethical issue can be raised with an ethics officer to obtain clarification. All officers and employees have the right to consult directly with an ethics officer [and/or the Supervisory Board's ethics committee] who, in turn, shall advise and take action in accord with the values contained in this Ethics Code.

<sup>86</sup> For example, ISO 14000 on Environmental Management, as developed by the International Organization for Standardization ([www.iso.ch](http://www.iso.ch)).

## The Russia Corporate Governance Manual

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Questions or concerns can be addressed by e-mail to [ethics@companyname.ru](mailto:ethics@companyname.ru), or by phone, fax, or regular mail to the Company's ethics officer:

Last Name, First Name, Patronymic

Tel.: \_\_\_\_\_ (ext.)

Fax: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

E-Mail: \_\_\_\_\_

### 2. Processes and Responsibility

Each individual is responsible for his or her ethical behavior. Adherence to the Code of Ethics is made obligatory for all employees, and is incorporated into all employee contracts by reference, and linked to all disciplinary procedures.

Department heads are accountable to the General Director and/or the Executive Board for implementing this Code of Ethics within their departments, ensuring that all officers and employees understand it, and for providing assurances that they are operating according to the standards set by this Ethics Code. The General Director and/or the Executive Board are to provide the same assurances to the Supervisory Board. The principles and provisions in this Code of Ethics have been integrated into the Company's internal control system. Rigorous and objective processes to measure performance, identify shortcomings and gaps, and implement measures to address such ethical shortcoming and gaps, are regularly reviewed and modified as necessary.

The Supervisory Board's Ethics Committee [if established] periodically reviews and updates these principles, reviews the extent to which its standards are applied in practice, and formulates proposals for the Supervisory Board's approval.

### 3. Training Program

The Company offers a training course in ethics for all new directors, managers, and employees. This course offers practical examples and applications of this Code of Ethics.

Periodic and specialized training courses are offered to officers and employees, as part of the Company's continuous professional education program.