

Corporate Governance Code

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INTRODUCTION

“Corporate governance” is a term that encompasses a variety of activities connected with the management of companies. Corporate governance affects the performance of economic entities and their ability to attract the capital required for economic growth. Improvement of corporate governance in the Russian Federation is vital for increasing investment in all sectors of the Russian economy from both domestic sources and foreign investors. One means to foster such improvement is to introduce standards that are based on an analysis of best practices of corporate governance.

These standards of corporate governance apply to all economic entities, but are most important for joint stock companies. This is because it is in joint stock companies that the separation between ownership and management is the greatest, and thus conflicts related to corporate governance are most likely. Therefore, this Code has been developed primarily for joint stock companies seeking access to capital markets. This consideration, however, does not rule out the possibility of its use by other economic entities.

Standards of corporate governance should be applied to ensure adequate protection of the interests of all shareholders, regardless of the size of their holdings. The greater the level of shareholders' protection achieved, the more investment capital will be available to Russian joint stock companies (hereinafter referred to as “companies”), which will favorably influence the Russian economy as a whole.

Standards of corporate governance should be instrumental to the attainment of high ethical standards in relations between market participants.

The following sections describe the background of the development of the Corporate Governance Code (hereinafter referred to as the “Code”). It should be also taken into account that any company may develop its own code of corporate governance in accordance with the recommendations of this Code, or incorporate some of the Code’s provisions into its internal regulations. Subject to a company’s legal status, branch affiliation, capital structure, and other specific parameters, such a company may selectively use those recommendations of this Code suitable to it.

1. Russian law already incorporates the majority of the fundamental principles of corporate governance, however, in practice, their use, especially in court, and corporate governance traditions, are still at the formative stage

The existing Russian legislation governing the operation of economic entities is relatively new, however it already reflects most of the generally accepted corporate governance principles.

On the other hand, the main problems in the corporate governance area arise from the lack of durable corporate governance practices rather than the quality of legislation, which is why corporate governance traditions are currently in the formative stage.

2. High standards of corporate governance cannot be assured by legislative provisions alone

Legislation alone cannot be expected and is inherently unable, to regulate all issues related to the management of companies.

First, the law establishes and should establish only general mandatory rules. It cannot regulate, and should not have as its purpose to regulate in detail all matters of corporate operations. Abundance of detail in legal norms makes it difficult for companies to function since each company's business is unique, making it impossible adequately to reflect such uniqueness in the law. That is why the law often completely omits provisions regulating certain relationships (and the absence of such regulation is often not at all a legislative weakness), or establishes general rules leaving it to the parties involved in appropriate business relationships to choose a line of behavior.

Second, legislation is unable to react rapidly to changes in corporate governance practice, as amending laws is very time consuming.

3. Many issues associated with corporate governance lie outside the legal arena and have an ethical rather than legal nature

Many legislative regulations covering corporate governance are based on ethical norms. For example, civil law regulations, in particular, stipulate the possibility of applying requirements of good faith, prudence and equity in the absence of applicable legislation, as well as exercising civil rights in a reasonable and fair manner. Thus, moral and ethical standards of reasonableness, equity and good faith are part and parcel of the existing legislation.

At the same time, such legislative regulations are not always sufficient to ensure proper corporate governance.

Therefore, companies should act in accordance not only with statutory standards, but also with ethical standards which are often more demanding than the law's requirements.

Ethical standards present a set system of behavioral norms and customs of the trade traditionally applied by the business community, which are not based on the law, and which form positive expectations with respect to the anticipated behavior of participants in corporate relations.

Ethical standards of corporate governance form sustainable behavioral patterns common to all participants in corporate relations.

Compliance with these standards is not only a moral imperative; it also helps the company avoid risks, supports long-term economic growth and facilitates successful business activity.

Ethical standards and best practice, together with the law, form a company's policy of corporate governance based on respect for the interests of both the shareholders and management of the company and help to strengthen the company and increase its profit.

4. The Code sets forth recommendations with respect to the best practices of corporate governance, but is, however, not obligatory

The Code shall play a key role in the process of development and improvement of Russian corporate governance practices. It shall become an important educational tool that be extensively used to define Russian company governance standards and to promote the further development of the Russian stock market.

The Code has been developed in accordance with the current provisions of Russian legislation, with due respect to established Russian and foreign corporate governance practices, ethical standards, and the specific needs and business environment of Russian companies and Russian capital markets at the present stage of their development.

The provisions of the Code are based on the internationally recognized corporate governance principles developed by the Organization for Economic Cooperation and Development (OECD), in accordance with which a number of other countries have adopted their own corporate governance codes and similar documents.

The Code is a list of recommendations. The application of the Code should be voluntary for companies, and should be motivated by their desire to increase their attractiveness to present and potential investors.

The Code sets forth the underlying principles of the best corporate governance practices that may be used by Russian companies to build their own systems of corporate governance, and contains recommendations on the practical implementation of these principles and the related disclosure of information.

When shaping their own corporate governance policies, companies may themselves determine which rules and procedures recommended by the Code they should follow and/or whether they should develop new rules and procedures in accordance with the corporate governance principles set forth by the Code.

CHAPTER 1

PRINCIPLES OF CORPORATE GOVERNANCE

Corporate governance should be based on respect for the rights and lawful interests of all participants and improve the quality of a company's operations by means of, among other things, increasing the value of corporate assets, creating jobs and enhancing the financial stability and profitability of the company.

Trust between all those engaged in corporate governance is at the root of the effective operation of a company and the ability to attract investment. The Principles of Corporate Governance described in this chapter are aimed at the creation of trust in relations arising in connection with corporate management.

The principles of corporate conduct are fundamental guidelines underlying the formation, operation and enhancement of a company's system of corporate governance.

The principles of corporate conduct set forth in this chapter form the basis of the recommendations contained in the chapters of this Code that follow, and also serve as fundamental guidelines to be observed in the absence of specific recommendations. These principles have been drafted according to the Principles of Corporate Governance of the Organization for Economic Cooperation and Development (OECD), international corporate conduct practice, as well as experience accumulated in Russia since the enactment of the Federal Law "On Joint Stock Companies".

1. Corporate conduct practice should provide shareholders with a real opportunity to exercise their rights in relation to the company

1.1. Shareholders should be provided with reliable and effective methods to register ownership of shares and an opportunity to freely and quickly dispose of their shares.

1.2. Shareholders may participate in the management of a joint stock company by making decisions at a general shareholders meeting on the most important issues of a company's business. It is advisable that the following be provided to guarantee this right:

(1) the procedure for giving notice of a general shareholders meeting gives shareholders a genuine opportunity to prepare for such meeting;

(2) shareholders are provided with a genuine opportunity to study the list of persons entitled to take part in a general shareholders meeting;

(3) the place, date and time of a general shareholders meeting is fixed in such a manner that the shareholders have a genuine and unrestricted opportunity to take part in it;

(4) procedures whereby shareholders can show that they have a right to call a general shareholders meeting and introduce changes to the agenda are not unduly complicated; and

(5) each shareholder has an opportunity to realize its voting rights in the most simple and convenient way.

1.3. Shareholders should be provided with an opportunity to share in the profits of the company. To enable shareholders to exercise this right it is recommended that the company:

(1) establishes a transparent and shareholder-friendly mechanism for evaluating the amount of dividends and payment thereof;

(2) provides sufficient information for accurate understanding of the conditions required to pay dividends and on the procedure for their payment;

(3) prevents any opportunity to mislead shareholders with respect to the financial position of the company when paying dividends;

(4) provides for a procedure for the payment of dividends which would not make it unduly complicated for shareholders to receive such dividends; and

(5) impose sanctions on executive bodies for incomplete or delayed payment of declared dividends.

1.4. Shareholders should have the right to the regular and timely receipt of complete and accurate information on the company. This right should be fulfilled by:

(1) provision to shareholders of comprehensive information on each item of the agenda in preparation for a general shareholders meeting;

(2) inclusion of information necessary for evaluation of the results of the company's operations for the year in the annual report presented to shareholders; and

(3) establishment of the position of corporate secretary (hereinafter referred to as the “secretary of the company”) to ensure shareholders’ access to information about the company.

1.5. Shareholders should not misuse the rights conferred upon them.

Neither acts of shareholders aimed exclusively at harming other shareholders or the company, nor other misuses of shareholder rights, should be allowed.

2. Corporate governance practice should provide for equal treatment of shareholders owning an equal number of shares of the same type (category). All shareholders should have access to effective protection in the event of a violation of their rights

Confidence in a company is largely based on the equal treatment by the company of equal shareholders. For the purposes of this Code, equal shareholders mean shareholders that own the same number of shares of the same type (category). This principle should be observed by means of the following:

(1) the established procedure for holding general shareholders meetings should provide all persons attending the meeting with a reasonably equal opportunity to express their opinion and ask questions;

(2) important corporate actions should be taken in such a way that shareholders have full information about such actions, and their rights are observed;

(3) operations based on inside and confidential information should be prohibited;

(4) members of the board of directors and the company's executive bodies, and the director general should be elected in accordance with a transparent procedure which provides shareholders with full information on such persons;

(5) members of the board, the director general and other persons who may be interested in a transaction should disclose information on such interest; and

(6) all required and possible measures should be taken to settle conflicts between bodies of the company and its shareholder(s) or between shareholders, if such conflicts affect the interests of the company (hereinafter referred to as "corporate conflicts").

3. Corporate governance practice should provide for the strategic management of the company's business by the board of directors, for effective control by the board over the executive bodies of the company, and for the accountability of the board of directors to shareholders

3.1. The board of directors should determine the company's development strategy and effectively control the financial and business activities of the company. For this purpose the board of directors should approve:

(1) priority areas of the company's operations;

(2) a financial and business plan; and

(3) internal control procedures.

3.2. The composition of the board of directors of the company should provide for the most efficient performance of the functions entrusted to the board of directors. For this purpose it is recommended that:

(1) members of the board of directors should be elected by means of a transparent procedure which takes into account the diversity of shareholders' opinions, ensures that the composition of the board of directors meets the relevant legal requirements and allows for the election of independent members of the board of directors (hereinafter, an "independent director");

(2) the board of directors should include a sufficient number of independent directors;

(3) the procedure for determination of whether there is a quorum at the meeting of the board of directors should provide for the participation of non-executive and independent directors.

3.3. It is recommended that members of the board of directors take an active part in the meetings of the board and of board committees.

It is recommended that the meetings of the board of directors should be held as follows:

(1) on a regular basis in accordance with a specially drafted plan; and

(2) with personal attendance or by remote poll depending on the importance of the items to be considered.

It is recommended that the board of directors should create committees for preliminary consideration of the most important issues falling within its competence:

(1) the strategic planning committee should facilitate the increase of the company's business effectiveness in the long-term;

(2) the audit committee should provide for control over the financial and business operations of the company;

(3) the personnel and remuneration committee should encourage attraction of skilled experts to the management of the company and the creation of incentives necessary for them to work effectively; and

(4) the committee for settlement of corporate conflicts should encourage prevention and efficient settlement of corporate conflicts.

The board of directors may also consider the establishment of other committees, including risk management and ethics committees.

3.4. The board of directors should provide for the efficient operation and supervision of executive bodies of the company.

To this end, it is recommended that the board of directors:

- (1) be vested with the right to suspend the authorities of the director general (managing organization, manager) of the company;
- (2) should define eligibility criteria applicable to candidates for the position of director general (managing organization, manager) and members of the company's managerial board;
- (3) should approve the terms and conditions of contracts between the company and the director general (managing organization, manager) and the members of the managerial board, including their remuneration and other fees.

4. Corporate governance practice should provide executive bodies of the company with the ability to manage the day-to-day activities of the company reasonably, in good faith and solely in the interests of the company, and ensure that executive bodies report to the board of directors and the shareholders

4.1. It is recommended that companies create a collegiate executive body (hereinafter "managerial board"), which should be competent to resolve complicated issues relating to the management of the day-to-day activity of the company.

4.2. The composition of the executive bodies of the company should provide for the most efficient performance of the functions entrusted to them. For this purpose:

- (1) the director general and members of the managerial board should be elected by means of a transparent procedure that provides the shareholders with full information about such persons;

- (2) in making a decision on the transfer of powers of a sole executive body (hereinafter "director general") to a managing organization (manager), shareholders should have full information on the managing organization (manager), including information on risks relating to the transfer of powers to the managing organization (manager), the reasons for such a transfer, confirmation that the managing organization (manager) has the funds available to reimburse losses to the company if such losses occur through the fault of the managing organization (manager), and a draft of the contract with the managing organization (manager); and

- (3) the director general and members of the managerial board should have sufficient time to discharge their duties.

4.3. It is recommended that executive bodies act in accordance with the financial and business plan of the company.

4.4. It is recommended that remuneration of the director general (managing organization, manager) and members of the managerial board correspond to their qualifications and reflect their real contribution to the results of the company's operations.

5. Corporate governance practice should provide for timely disclosure of full and accurate information about the company, including information about its financial position, economic parameters, ownership and management structure, to enable shareholders and investors to make informed decisions

5.1. Shareholders should have equal opportunities in terms of access to the same information.

5.2. The information policy of the company should provide for free and unhindered access to information about the company.

5.3. Shareholders should have the opportunity to receive full and reliable information, including information about the financial situation of the company, results of its operations, management of the company, major shareholders of the company, as well as other essential facts which have significant impact on its financial and business operations.

5.4. The company should control the use of confidential and insider information.

6. Corporate governance practice should take into account the statutory rights of interested persons, including employees of the company, and encourage active cooperation between the company and interested persons with a view to increasing the assets of the company and the value of its shares and other securities, and to creating new jobs

6.1. To provide for the efficient operation of the company, its executive bodies should take into account the interests of third persons, including creditors of the company and state and municipal bodies of the territory where the company or its structural subdivisions are located.

6.2. The management bodies of the company should encourage employees' to be concerned about the efficient operation of the company.

7. Corporate governance practice should provide for the efficient control over the financial and business operations of the company in order to protect the rights and legal interests of shareholders

7.1. It is recommended that companies create an efficiently functioning system of daily supervision of their financial and business operations. For this purpose it is recommended that the company operate on the basis of a financial and business plan, which should be annually approved by the board of directors of the company.

7.2. It is recommended that the company should distinguish between the roles of those bodies and persons included in the system of supervision of financial and business operations of

the company and those persons involved in the development, approval, application and evaluation of the internal control system. It is advisable that development of internal control procedures should be assigned to an internal control service (hereinafter referred to as the “control and audit service”), which should be independent of the executive bodies of the company, while approval of internal control procedures should be assigned to the board of directors of the company.

7.3. It is recommended that the company should ensure efficient coordination between internal and external audits. For this purpose:

- (1) the audit committee should evaluate each nominee auditor of the company; and
- (2) prior to its submission for approval by the general shareholders meeting, the opinion rendered by the independent audit organization (auditor) of the company should be presented for evaluation by the audit committee.

CHAPTER 2

GENERAL SHAREHOLDERS MEETING

Shareholders that participate in a company risk their capital in doing so. Shareholders are the real owners of the company, and must be able to receive detailed and reliable accounts of the policies pursued by the company from the board of directors and executive bodies.

Holding the general shareholders meeting provides the company with an opportunity to inform shareholders at least once a year of its activities, achievements and plans, and to involve them in making decisions on the most significant company matters. For a minority shareholder, the annual general shareholders meeting is often the only chance to obtain information on the company's operations and ask the company management questions regarding the company's administration. By participating in a general shareholders meeting, a shareholder exercises its right to be involved in the company's management.

A prerequisite for shareholders' trust in their company is the establishment of a procedure for holding annual meetings that assures the equitable treatment of all company shareholders, while not being overly expensive or complicated for them.

1. Convocation of and Preparation for the General Shareholders Meeting

1.1. It is recommended that the notice procedure for the general shareholders meeting allow all shareholders to prepare properly for the meeting

1.1.1. The convening and preparation of the general shareholders meeting is very important, as it ensures that informed decisions are made. Therefore, notice of the general shareholders meeting must be given to all shareholders so as to allow them sufficient time to formulate their position on the agenda items, to obtain information on persons authorized to participate in the general shareholders meeting, and to contact other shareholders to discuss the agenda.

The law provides that, except in specific circumstances, notice of the general shareholders meeting must be given not later than 20 days before the meeting. Considering the importance of giving timely notice of a general shareholders meeting to shareholders, it is recommended that a company give a 30-day notice of each meeting, unless otherwise provided in the law.

1.1.2. The notice of the general shareholders meeting should contain sufficient information to enable shareholders to decide whether they will participate and, if the meeting is held in person, how they will participate. The law contains requirements as to the content of such notice. However, it is recommended that in addition to these statutory requirements the notice of a general shareholders meeting held in person should state when the registration of participants starts, where registration is conducted, and the person to whom shareholders may address their complaints in the event of violations of the registration procedure. If voting is conducted by poll, it is recommended that the notice should indicate the date when voting ballots must be submitted.

1.1.3. The law provides several options for notifying shareholders of the general shareholders meetings (notification by mail, personal delivery, or publication of the notice). When selecting options the company should take into account the need to inform all shareholders entitled to participate in the general shareholders meeting. It is recommended that the company charter permit use of electronic notices as an additional means of general shareholders meeting, provided that a shareholder has clearly expressed a preference for this.

1.1.4. The law stipulates that where the company charter identifies a printed publication where general shareholders meeting notices will be published, such publication should be selected on the basis of its accessibility to most shareholders. It is recommended that, if it appears necessary, the charter should identify several publications in which the notice will be published simultaneously, and at least two publications should be nominated so that the notice is published even if one of the designated publications terminates its operations.

1.2. Companies should enable shareholders to familiarize themselves with the list of persons authorized to participate in a general shareholders meeting

1.2.1. Being able to familiarize themselves with the list of persons authorized to participate in a general shareholders meeting permits shareholders holding at least one percent of votes to analyze the relationships at the forthcoming meeting and to contact other shareholders, if necessary, informing them of their position on any of the agenda items and discussing possible voting options, as well as to appoint persons to represent their interests at the general shareholders meeting. Therefore, companies are encouraged to enable shareholders to study lists of authorized participants at any time from the moment of notice and until a general shareholders meeting held in person is over, or, in the case of a general shareholders meeting held by means of absentee ballots, until the last date for submitting voting ballots.

1.2.2. Under the law, companies are required to provide any applicant with an extract from the list of persons authorized to participate in the general shareholders meeting, or a statement confirming that such person is not on the list. Shareholders thus obtain proof of their inclusion in the list and can check that their personal data entered in the list is accurate, thus ensuring that there are no obstacles to their participation in the general shareholders meeting. In addition, a shareholder unreasonably excluded from the list or whose personal data are incorrect has the right to demand to be included or to have the personal data corrected, which right the shareholder should enjoy from the moment of being notified of the meeting. In this regard it is recommended that companies enable shareholders to obtain extracts from the lists of persons authorized to participate in the general shareholders meeting and statements confirming non-inclusion from the date of the general shareholders meeting notice.

1.2.3. Obtaining the list of persons authorized to participate in the general shareholders meeting should not involve an excessively difficult, expensive or time-consuming. It is recommended that companies enable shareholders to study the list and receive extracts there from at the location where the general shareholders meeting materials and documents are made available, as identified in the general shareholders meeting notice.

1.3. It is recommended that information made available in connection with preparation for the general shareholders meeting and the access to such information enable shareholders to gain a full picture of the company's operations and make informed decisions on the agenda issues

1.3.1. The law prescribes the list of information to be made available to shareholders in connection with the preparation for a general shareholders meeting. This list may be expanded in a company charter.

Companies are encouraged to identify in their charter additional materials and documents to be made available to shareholders on a mandatory basis when preparing for a general shareholders meeting, whether annual or extraordinary. Such information requirement in the company charter would promote shareholders' and potential investors' trust in a company by demonstrating its commitment to the transparency of its operations.

In particular, it is recommended that in addition to the submission of annual statements as prescribed by the law, the charter of the company should stipulate that the board of directors should also present its report to shareholders to allow the company's performance indicators and growth prospects to be discussed at the general shareholders meeting, and to enable assessment by shareholders of the existing company management practices and the policies pursued by the board of directors and executive bodies.

It is further recommended that the company's charter should define a list of materials to be made available to shareholders with respect to specific issues on the agenda. In particular, when the company's reorganization is on the agenda for the general shareholders meeting it is advisable that shareholders be provided with the reasons for such reorganization, as well as the annual reports and annual balance sheets for the last three fiscal years of all entities participating in the reorganization.

1.3.2. The law does not preclude the board of directors from providing other materials relevant to the agenda to shareholders during the preparation for the meeting in addition to those specifically listed in the law and the charter. Thus, to facilitate specific and productive discussions at the general shareholders meeting, and to effectively increase shareholders' influence, companies should provide shareholders with analyses and media reports, including those critical of the company's operations.

1.3.3. To make decisions on the agenda items, shareholders need to comprehensively assess the implications a decision may have for the company. The judgment of the board of directors plays a significant role in such an assessment. Making available information on the board's position allows a more balanced approach by shareholders towards decisions that are of significance to the company. To this end it is recommended that reports reflecting the board's position and any dissenting opinions of the directors on each agenda item are submitted to shareholders before each general shareholders meeting.

1.3.4. Materials made available before a general shareholders meeting should be organized in such a manner as to allow the easy correlation of such materials to specific agenda

items. If there is no clear relationship between agenda items and corresponding materials, forming an objective opinion on such items and voting on them may become complicated. In this regard, it is recommended that reference to specific agenda items be made in the materials made available before a general shareholders meeting.

1.3.5. General shareholders meeting-related information should be communicated to the shareholders in a manner allowing for thorough review of the agenda items before the general shareholders meeting. Under the law, such information may be made available for shareholders not only at the address of the company's executive bodies, but also at other locations stated in the general shareholders meeting notice. As access to the general shareholders meeting-related information must be given to the maximum number of shareholders, companies are encouraged to make such information available in each area where significant numbers of the company's shareholders reside.

It is also recommended that shareholders be given an additional opportunity to access such information by electronic telecommunication means, including on the Internet. Corresponding provisions should be set forth in a company's charter.

1.3.6. If the agenda of a general shareholders meeting includes the election of members of the board of directors, director general, board members, members of the audit commission, independent audit organization (auditor) of the company, the participants in the general shareholders meeting should be provided with full information on the candidates for such positions. The information presented should contain the written consent of a candidate to fulfill the relevant role. In the absence of this written consent, it is recommended that the candidate should attend the general shareholders meeting in person and verbally confirm such candidate's consent to take the relevant position before the issue is voted on.

1.4. It is recommended that general shareholders meeting agenda items be clearly defined and precisely formulated, leaving no room for multiple interpretations

1.4.1. The general shareholders meeting agenda is the only source of information for the shareholders on the issues it is proposed to resolve at the general shareholders meeting, and it is these issues that are covered by the materials made available to the shareholders. A vague agenda means that issues may be brought before the general shareholders meeting on which no materials were made available to the shareholders and on which they are unable to make an informed decision. A general shareholders meeting agenda should, therefore, contain a list of all issues to be resolved at the forthcoming meeting. It is not recommended that agenda issues be identified with such words as "other", "miscellaneous", or in any other way that does not clearly identify the issue for discussion.

1.4.2. Information on the proponent of an agenda issue is important to allow a shareholder to form an objective opinion on the issue. Such information allows a shareholder to better understand why an issue was presented to the general shareholders meeting and hence how to act on it. It is, therefore, recommended that general shareholders meetings' agendas disclose the proponents of each item included.

1.4.3. Preparation of the agenda should follow a common rule whereby each proposal on the agenda is included as a separate item. However, resolution of some issues is tied to decisions on other related issues. For example, a decision on reorganization in the form of a spin-off may only be deemed made if the general shareholders meeting resolves to approve the following issues: the spin-off procedure and terms and conditions, establishment of the new companies, the procedure to convert the reorganized company's shares into shares of the new companies, and approval of the spin-off balance sheet. To avoid any doubt as to whether the general shareholders meeting has actually resolved these issues, issues of this kind should be combined on the agenda.

Combination of issues may be useful in other cases, too. Specifically, where separate agenda items cover early termination of the company's board of directors and election of a new board, approving the former and rejecting the latter will mean that the company is left without an active board of directors.

1.5. The procedures for asserting the rights of shareholders to call general shareholders meetings and propose agenda items should not be excessively complicated

A shareholder's right to participate in the management of the company implies the right to propose agenda items, nominate candidates for election to the management bodies, and call for general shareholders meetings. The law sets certain requirements as to the number of shares to be held by a shareholder as of the moment when any of the above proposals is made. In Russia most shares are issued on a book-entry basis, and securities legislation permits rights to such shares to be recorded either in the share register or a depository account. Companies should not require that a shareholder appearing in the register produce any documents as evidence of rights. It is recommended instead that the company should check the existence of the shareholder's specific rights against the register. Provided the right to shares is recorded in a deposit account, it is recommended that a current statement of the account be regarded as ample proof of the shareholder's right to the shares.

1.6. It is recommended that easy and uncomplicated access for shareholders be the goal when the place, date and time for the general shareholders meeting are being selected

1.6.1. Places and times that would make it difficult for the shareholders to participate in the meeting or would cause them to incur unnecessary expenses, should not be chosen for general shareholders meetings.

It is, therefore, recommended that meetings be held where the company is located or in the location expressly identified by the company charter for holding general shareholders meetings.

It is recommended that charters of companies located in places inaccessible by public transport or not freely accessible to all shareholders wishing to participate in the general shareholders meeting provide for another location within the Russian Federation accessible by public transport and freely accessible to the general public.

1.6.2. It is recommended that when premises are selected for the general shareholders meeting, such premises are sufficient to accommodate all shareholders wishing to participate. In the light of these objectives it is recommended that companies determine in advance and as precisely as possible how many participants are likely to attend the meeting, which is especially important for companies with many shareholders owning small blocks of shares.

1.6.3. It is recommended that the annual general shareholders meeting should commence not earlier than 9 A.M. nor later than 10 P.M. local time.

1.7. It is recommended that each shareholder be given the opportunity to exercise his voting rights in a simple and convenient way

In some situations, it may be more convenient for shareholders to vote via proxy, where the representative must hold a power of attorney. The law sets forth formal requirements for such a power of attorney, which, if not followed, may result in it being invalidated. To avoid this, it is recommended that companies send shareholders, together with blank voting ballots, blank powers of attorney with instructions on how to fill them out, though with shareholders not being obligated to use this form.

2. General shareholders meeting Procedures

2.1. It is recommended that procedures for the conduct of the general shareholders meeting established by the company ensure that all persons present at such meeting are given reasonably equal opportunities to express their opinions and ask questions

2.1.1. The general shareholders meeting should be conducted in a way that gives shareholders an opportunity to make balanced and informed decisions on all matters on the agenda. To attain this objective, the rules of order of the meeting should allocate reasonable and sufficient time both for presentations on the matters on the agenda and for discussion of such matters.

One of the key figures at the general shareholders meeting is the chairman who should act reasonably and in good faith, without using his authority to limit the rights of shareholders. For instance, the chairman should not interrupt the speaker, unless this is necessary to maintain the rules of order applicable to the general shareholders meeting or to comply with other procedural requirements, nor should the chairman comment upon a presentation made by a shareholder.

In order to give shareholders an opportunity to receive the fullest and most objective information about the company in the course of the meeting, it is recommended that key officers of the company, including chairmen of committees of the board of directors, should be allocated time to speak.

It is also advisable that the agenda of the meeting should reserve some time for shareholders' presentations.

2.1.2. Accountability of directors, the director general and managers to the company's shareholders implies the right of shareholders to demand written reports and answers to questions regarding various aspects of the company's activities. The general shareholders meeting is the only opportunity for many shareholders to receive competent answers to their questions directly from company officials. Therefore, it is recommended that the director general, managerial board and company directors be present at the meeting.

With the purpose of encouraging the active participation of shareholders in controlling financial and business operations of the company, shareholders should be provided with an opportunity to question members of the audit commission and the auditor of the company about material they have presented and, accordingly, receive answers to the questions asked. In this regard, the company should invite the auditor of the company to attend general shareholders meetings, as well as ensuring that all members of the company's audit commission attend such meetings.

It is clear that sometimes the presence of all members of the managerial board and other company officials may not be possible. In such cases, it is recommended that the chairman of the meeting inform the participants of the reasons for the absence of each such officer as soon as the meeting begins.

2.1.3. The chairman of the meeting should try to have each question asked by shareholders answered directly at the general shareholders meeting. If a question is too complex to allow an immediate answer, it is recommended that the person(s) asked should give a written response after the general shareholders meeting as soon as practicable.

2.1.4. To assure that persons who are elected as directors, and as members of executive bodies and the audit commission are trusted by shareholders, shareholders should be provided with all necessary information about the nominees.

The information about nominees that should be disclosed to shareholders before a general shareholders meeting is specified in other chapters of this Code dealing with activities of the board of directors, executive bodies and other bodies of the company. However, shareholders may find such data insufficient to choose a nominee. Shareholders should, therefore, be allowed to question nominees directly, and for this purpose companies should assure that such nominees are present at the general shareholders meeting. It is worthwhile including into the charter of the company a requirement for candidates to the board of directors, executive bodies and the audit commission of the company, as well as the proposed auditor of the company, to attend a general shareholders meeting when the agenda includes formation of the above bodies of the company (election of the auditor of the company).

2.2. The procedure used by the company to register general shareholders meeting participants must not prevent shareholders from participating

2.2.1. The procedure for registering participants of a general shareholders meeting is required only to determine whether or not a quorum is present at a meeting. To exclude any possibility of this procedure being used to prevent "unwanted" shareholders from participating in

the general shareholders meeting, the registration procedure should be described in detail in the company's internal documents and included in the general shareholders meeting notice.

2.2.2. When the registration procedure is being established, the guiding rule should be that any shareholder wishing to participate in the meeting should be able to do so. In this regard it is recommended that registration of shareholders for participation in the general shareholders meeting be conducted on or near the premises in which the general shareholders meeting will be held and on the day proposed for the meeting.

Compliance with this recommendation by companies where the number of shareholders holding voting shares exceeds 100,000 may cause excessive expense; therefore, these companies may wish to commence the registration procedure in advance. In any such case, however, registration should be done in such a manner as not to cause any additional expense to shareholders.

2.2.3. The time period provided for registration should be sufficient for all shareholders wishing to participate in the meeting to register.

Registration of participants should not cease when a general shareholders meeting proceeds to business. Shareholders arriving after the commencement of the general shareholders meeting may participate in passing resolutions on the matters on the agenda put to the vote after such shareholders have been registered.

2.3. A reconvened general shareholders meeting in large joint stock companies (with more than 500,000 shareholders) is competent if it is attended by shareholders with an aggregate holding of not less than 20 percent of the voting shares of the company

Pursuant to the existing legislation, a reconvened general shareholders meeting is deemed duly constituted (has a quorum) if shareholders holding on aggregate at least 30 percent of voting shares of the company take part in the meeting. A smaller quorum for transaction of business at a reconvened general shareholders meeting may be stipulated for companies where the number of shareholders is more than 500,000, if this is provided by their charters.

If an excessively low quorum is set for transaction of business at a reconvened general shareholders meeting, this may entail consequences unfavorable for shareholders. For example, this will enable holders of relatively insignificant numbers of shares to take decisions, thus endangering the rights and lawful interests of other minor as well as major shareholders. Validity of resolutions passed by a small number of people entitled to participation in the general shareholders meeting creates incentives for non-compliance with the established procedures for notifying shareholders of a reconvened general shareholders meeting.

In this regard, the charters of large companies should stipulate that a reconvened shareholders meeting is lawful if it is attended by shareholders having in aggregate not less than 20 per cent of the voting shares of the company.

2.4. Procedures for the conduct of the general shareholders meeting should safeguard the rights of shareholders during determination of the outcome of the vote

2.4.1. It is recommended that the company should conclude its general shareholders meeting on the same day to save additional expenses for the shareholders. If a meeting cannot be finished on the same day, the company should at least continue it on the following day.

2.4.2. The procedure for counting votes should be transparent to shareholders and should preclude any possibility of figures being manipulated when vote results are counted. Companies, therefore, should arrange for independent monitoring of the vote counting process. Their charters and other internal regulations should provide procedures for such monitoring and, in particular, define the authority of persons appointed to monitor the vote counting process.

2.4.3. It is recommended that voting results are counted and announced before the end of the general shareholders meeting. Any doubts concerning voting results will thus be avoided, and shareholders' confidence in the company enhanced.

CHAPTER 3

BOARD OF DIRECTORS OF THE COMPANY

The general shareholders meeting independently passes resolutions on major issues related to the operations of the company lying within the scope of its authority set forth by the law. Decisions connected with the ongoing management of the company's current operations are made by the executive bodies of the company.

However, determination of the general strategy of the company and control over its executive bodies require certain professional qualifications and decision-making ability. The law requires that these issues be decided by a special body of the company - the board of directors, elected at the general shareholders meeting. Pursuant to the law, the board of directors should exercise general management of the company's operations, have wide powers of supervision and control, and be liable for a failure to perform its duties.

1. Functions of the Board of Directors

1.1. The board of directors determines the development strategy of the company and approves its annual financial and business plan

The law charges the board of directors with the responsibility of determining the priority areas of activity for the company. In so doing, the board of directors defines the major targets in the company's long-term operations. At the same time, efficient attainment of strategic objectives approved is possible only if these are objectively evaluated based on the current market situation, the financial position of the company and other factors affecting its financial and business operations.

Such evaluation should be made each year with the approval by the board of directors of a financial and business plan (budget) based upon recommendations of the company's executive bodies, which is the company document reflecting scheduled annual expenses in each area of the company's operations, and the funds to cover such expenses. Such document should also include a production plan, a marketing plan and a business plan for the company's investment projects. It should be noted that the level of detail in such a financial and business plan should permit the company's executive bodies a certain freedom of action in managing the current operations of the company within the scope of the plan.

In practice, companies sometimes draft several documents containing financial parameters for planning their operations. However, for convenience of application and due control over performance of a plan, it is recommended that the board of directors approve a uniform document containing scheduled financial and economic parameters for a year, making any amendments and additions thereto as may become necessary during the year. This will not prevent the company from making separate documents for planning various aspects of its operations (marketing, investments) in compliance with the financial and business plan approved and amended by the board of directors.

1.2. The board of directors provides efficient supervision of the financial and business operations of the company

1.2.1. Efficient supervision of the company's financial and business operations ensures full implementation of its financial and business plan, compliance with established accounting procedures, and the accuracy of the financial information used by the company. Therefore, it is recommended that the company's charter should assign approval of the procedures for internal supervision of financial and business operations of the company to the authority of the board of directors.

These procedures should be developed taking into consideration the requirements of the Federal Law "On Countering Legalization of Income Generated by Illegal Means (Money Laundering)".

1.2.2. The risks that the company faces in the course of its operations are ultimately borne by shareholders. Therefore, one of the important functions of the board of directors - the guarantor of the rights of shareholders - is the establishment of a risk management mechanism enabling the company to assess the risks it faces in the course of its operations and minimize their negative effect.

Efficient internal controls enable regular identification and evaluation of substantial risks that may affect the achievement of the company's goals. Such evaluation should cover all risks taken by the company – loan risk, insurance risk, currency limitations risk, market risk, interest rate risk, liquidity risk, legal risk, and risks relating to carrying out operations with bills of exchange or other similar payment instruments.

In this respect, companies engaging in banking, investment or insurance activities should follow the risk management requirements established by their respective regulatory authorities.

Therefore, it is recommended that the responsibilities of the board of directors should include approval of internal risk management procedures, ensuring compliance with such procedures, analysis of their efficiency, and their improvement. These procedures should provide for prompt notification of the board of directors of all substantial deficiencies in the risk management mechanisms.

When approving risk management procedures, the board of directors should seek to strike an optimal balance between risks and rewards for the company, always provided that the company is at all times in compliance with the applicable legislation and the provisions of its charter, and to develop adequate incentives for the executive bodies of the company, its structural subdivisions and individual employees.

Companies should not, as a rule, take part in operations and conclude transactions involving a high risk of losing capital and investments.

1.3. The board of directors safeguards and protects the rights of shareholders as well as facilitates resolution of corporate conflicts

1.3.1. One of the most important functions of the board of directors is ensuring compliance with the corporate procedures that provide the framework for exercising shareholder rights. To enable the board of directors to perform this function, its responsibilities should include appointment of the officer responsible for ensuring compliance with these procedures – the corporate secretary (hereinafter referred to as “secretary of the company”).

1.3.2. It is advisable that the board of directors takes all necessary steps to prevent and resolve corporate conflicts that may arise between shareholders and the company’s bodies and officers (see a more detailed discussion of the role of the board of directors in corporate conflict settlement in Chapter 10 of this Code, "Resolution of Corporate Conflicts").

1.4. The board of directors ensures efficient operation of the executive bodies of the company by, among other things, supervising their operations

1.4.1. The law requires that executive bodies are held accountable to shareholders and the board of directors of the company. However, normally executive bodies report to shareholders only at the annual general shareholders meeting, which does not allow shareholders to control their operations effectively. Therefore, the board of directors is the major player in controlling the operations of executive bodies. This function implies that the board of directors should be able to suspend the director general (managing organization, manager) appointed by the general shareholders meeting. Such authority should be granted to the board of directors in the company's charter.

The board of directors should suspend the powers of the director general (managing organization, manager), if violations are revealed in the performance of such person’s duties. Therefore, if the executive bodies of the company are appointed by the general shareholders meeting, it is advisable that the company’s charter provide that the responsibilities of the board of directors include suspension of the director general (managing organization, manager), as well as the period of and reasons for such suspension.

1.4.2. Efficient operation of the executive bodies of the company is largely dependent on the qualifications of the senior officers. Therefore, the company should seek to retain highly qualified experts for leading managerial positions. Among other things, the company charter should set forth additional requirements of candidates for the positions of director general (managing organization, manager), members of the managerial board and heads of major divisions as well as to their remuneration, other than those provided by the law. Since ensuring effectiveness of the company’s operations is one of the functions of the board of directors, it is advisable that the definition of such requirements and determination of the amount of remuneration be included in its responsibilities.

1.4.3. The law does not specify who is responsible for defining the terms and conditions, including the amount of remuneration, of employment contracts between the company on the one hand and the director general (managing organization, manager) and members of the managerial

board on the other hand. This matter is not included in the responsibilities of the general shareholders meeting and, evidently, may not be left to the discretion of the executive bodies. Therefore, it is advisable that the charter of the company explicitly states that approval of the terms and conditions of such employment contracts, including those stipulating the amount of remuneration and other payments, is included in the responsibilities of the board of directors.

Inasmuch as members of the managerial board of the company may serve as members of the board of directors, in order to avoid conflicts of interest, such members should refrain from voting on the terms and conditions of employment contracts pertaining to the director general and members of the managerial board.

It is recommended that the votes of executive directors be counted when determining a quorum at the meeting of the board of directors. However, the votes of such members of the board of directors should not be counted when approving the terms and conditions of employment contracts with the director general (managing organization, manager) and members of the managerial board.

1.5. The authority of the board of directors should be clearly defined in the company's charter in a manner that is consistent with its functions

The law provides that responsibilities in addition to those provided by the law can be assigned to the board of directors. Such matters should be determined in the accordance with the functions of the board of directors to avoid ambiguity with respect to the division of powers among the board of directors, executive bodies and the general shareholders meeting.

2. Composition and Election of the Board of Directors

2.1. Composition of the board of directors should optimize the effectiveness of the board of directors

2.1.1. The board of directors should enjoy the trust of shareholders – otherwise it will not be able effectively to perform its functions. The personal qualities of members of the board of directors and their reputation should not give rise to any doubts that they may not act in the best interests of the company; therefore, it is recommended that only persons with impeccable reputations be elected as members of the board of directors. Commission by a person of economic crimes or crimes against the government, public bodies or bodies of local self-government, or the fact that such person has a record of administrative offences, primarily in such areas as entrepreneurial operations, finance, taxes and duties, or stock market operations should be considered in determining a person's suitability to serve as a member of a board of directors.

2.1.2. If a member of the board of directors has a conflict of interests this also gives grounds for doubt that such member will at all times act in the best interests of the company. Thus, it is not advisable to elect to the board of directors a person who is a member of the board of directors, the director general, a member of a management body or an employee of a competitor of the company.

2.1.3. If the board of directors is to discharge properly its duties and make a significant contribution to the management of the company's affairs, its members should have the knowledge, skills and experience required for making decisions on matters within the usual scope of authority of the board of directors, and for performing efficiently the functions of the board of directors of a particular company. Therefore, it is advisable that the charter of the company explicitly sets forth specific criteria for members of the board of directors.

2.1.4. The number of members of the board of directors can be affected by many different factors. However, when determining the number of members of the board of directors, companies should primarily seek a number that will enable the board of directors to hold productive and constructive discussions, make prompt and rational decisions, and efficiently organize the work of its committees.

2.2. It is recommended that the board of directors should include independent directors

2.2.1. As a rule, boards of directors of Russian companies consist of three categories of directors – executive, non-executive and independent directors.

Under the law, executive directors are defined as members of the board of directors concurrently holding positions as members of the managerial board, and their number may not exceed one-fourth of the total number of members of the board of directors of the company. At the same time, including in the board of directors only those persons who are not members of the managerial board does not in itself guarantee adequate protection of the interests of shareholders. Efficient performance by the board of directors of its functions requires that some of its members are independent directors, i.e., persons who not only do not serve as members of the managerial board, but are also independent from the officers of the company and their affiliated persons and from major business partners of the company, and do not have any other relations with the company that may affect the independence of their opinions (a detailed discussion of the requirements for independent directors is provided in Paragraph 2.2.2 of this Chapter).

2.2.2. Independent directors can make a substantial contribution to consideration and resolution of such matters as preparation of the company's development strategy, evaluation of executive bodies' performance in terms of implementation of such strategy, resolution of corporate conflicts that involve shareholders, and a number of other matters that may affect the interests of shareholders. Therefore, independent directors ensure that the board of directors forms an objective opinion on matters under discussion, which ultimately increases investor confidence in the company.

In defining eligibility criteria for independent directors, the company should consider their ability to make independent judgments. This means that there should be no factors capable of affecting their position. Therefore, it is advisable that an independent director should be a director who:

(1) over the last three years has not been, and at the time of election to the board of directors is not, an officer (manager) or employee of the company, or an officer or employee of the managing organization of the company;

(2) is not an officer of another company in which any of the officers of the company is a member of the appointments and remuneration committee of the board of directors;

(3) is not an affiliated person of an officer (manager) of the company (officer of the company's managing organization);

(4) is not an affiliated person of the company or an affiliated person of such affiliated persons;

(5) is not bound by contractual relations with the company, whereby the person may acquire property (receive monies) with a value in excess of 10 percent of such person's aggregate annual income, other than through receipt of remuneration for participation in the operations of the board of directors;

(6) is not a major business partner of the company (a business partner with an annual value of transactions with the company in excess of 10 percent of the asset value of the company); and

(7) is not a representative of the government.

No director may be deemed to be independent if he has acted in the capacity of a member of the board of directors of the company for 7 years.

2.2.3. In order to enable independent directors to influence actively the decision-making process and ensure that the board of directors considers the widest possible spectrum of opinions on matters being discussed, their number should comprise at least one-fourth of the total number of members of the board of directors. In any event, it is recommended that the company's charter should provide that the board of directors include at least three independent directors.

2.2.4. Independent directors should refrain from actions that may compromise their independent status. If after election of an independent director to the board of directors such person ceases to be independent due to any changes or new circumstances, such director should notify the board of directors accordingly, and give a detailed account of all such changes and new circumstances. Upon receipt of such notice, or if the board of directors becomes otherwise aware of such changes or new circumstances, the board of directors should notify shareholders accordingly and, if necessary, may call an extraordinary general shareholders meeting to elect a new board of directors. The procedure and grounds for election of a new board of directors should be set forth in the company's charter.

2.2.5. It is advisable that information about independent directors is disclosed in the annual report of the company.

2.3. It is recommended that election of the board of directors be conducted in accordance with a transparent procedure that takes into account the diverse opinions held by shareholders, ensures that the composition of the board of directors is in compliance with statutory requirements, and allows the election of independent directors

2.3.1. The board of directors is accountable to shareholders and must enjoy their trust; therefore, shareholders should have an opportunity to receive full information about all candidates for members of the board of directors. In particular, it is recommended that shareholders be provided with the following information: the identity of the person proposed the relevant candidate: age, education of the candidate, positions held over the last five years, position held at the moment of nomination, nature of relations with the company, membership in the boards of directors or official positions held with other legal persons, as well as nominations for membership in the boards of directors or nominations for election (appointment) to official positions with other legal persons, information on relations with affiliated persons, the nature of relations with major business partners of the company, as well as other information related to the financial status of the candidate or which may otherwise affect the discharge by the person of the duties of a member of the board of directors of the company.

In this connection, it is advisable that the company should, based upon specific eligibility criteria applicable to members of the board of directors, determine in its charter what information about candidates for positions of members of the board of directors is subject to disclosure to shareholders. In addition, it is advisable the company should also disclose to shareholders the fact that a candidate refused to disclose all or any portion of such information.

It is also recommended that the company develop a list of information to be disclosed by members of the board of directors after their election, including information allowing determination of whether any member of the board of directors is affiliated to shareholders or counteragents of the company, as well as to their affiliated persons. Such information should be disclosed in a personal statement of an elected member of the board of directors.

2.3.2. In an election of members of the board of directors, opinions of all shareholders should be taken into account, including those with small share holdings. This goal may be achieved only by electing members of the board of directors by cumulative voting, which should be stipulated in the charter whether or not such a requirement is set forth in law.

Election of members of the board of directors by cumulative voting is an important protection of the rights of minority shareholders. The company should develop and make shareholders aware of simple and easily understandable rules and procedures that they can use to exercise their right to elect the board of directors by cumulative voting.

2.3.3. The law restricts the participation of the director general or members of the managerial board of the company in the board of directors. However, it fails to provide the procedures needed to enforce this restriction during the election of members of the board of directors. Moreover, there is no procedure for ensuring the required number of independent directors in the board of directors. As a result a board of directors may be elected, the composition of which does not comply with the requirements of the law or the recommendations

of this Code. Therefore, the company should develop internal documents detailing the steps necessary in order to comply with statutory requirements and these recommendations. In particular, it is advisable to require that shareholders be informed of the statutory criteria applicable to the composition of the board of directors and of the consequences of failure to comply with such criteria before nomination of candidates for the positions of members of the board of directors begins. Moreover, it is advisable that the company indicate in the list of candidates for the positions of members of the board of directors whether each candidate is, or will be at the time of election, the director general, a member of the managerial board, an officer or employee of the company, and whether the candidate meets all the eligibility criteria applicable to independent directors.

If the number of candidates for positions of members of the board of directors who are subject to restrictions exceeds the number of persons required to be elected under the law or recommendations of this Code, the board of directors in consultation with the executive bodies of the company should determine which of the candidates is the most acceptable in terms of ability to properly discharge the duties of a member of the board of directors and is most likely to enjoy the confidence of shareholders. It is advisable that preference should be given to independent directors. The remaining candidates should be asked to withdraw their candidacies and, if they refuse to do so, the board of directors should communicate its voting recommendations to shareholders during the preparation and conduct of the general shareholders meeting.

3. Duties of Members of the Board of Directors

3.1. Members of the board of directors should discharge their duties reasonably and in good faith in the best interests of the company

3.1.1. The composition of shareholders of a company is rarely homogenous. Pursuing their, often conflicting, interests shareholders seek to elect their “lobbyists” onto the board of directors. However, members of the board of directors should act in the interests of the entire company, regardless of which shareholders nominated them or voted for their election.

The duty of members of the board of directors to act reasonably and in good faith in the interests of the company means that in exercising their rights and discharging their duties provided for in the law, the charter and other internal regulations of the company, they should use care and prudence to the maximum extent that could be expected from a good manager in a similar situation under similar circumstances.

3.1.2. The effectiveness of members of the board of directors (primarily non-executive directors) largely depends on the form, timeliness and quality of information available to them. If they rely solely on the information periodically furnished by executive bodies, they will not be able properly to discharge their duties.

Therefore, it is advisable that members of the board of directors demand additional information, when such information is necessary to make a balanced decision. The duty of the officers of the company to provide members of the board of directors with such information should be fixed in internal documents of the company.

3.1.3. The fact that members of the board of directors should act in the interests of the company requires that they enjoy the confidence and trust of shareholders and, therefore, it is necessary to exclude any situations where pressure may be brought to bear upon any member of the board of directors in order to induce such director to take actions or make decisions contrary to such interests.

In particular, members of the board of directors and their affiliated persons should not accept gifts from persons interested in the adoption of certain decisions related to discharge by them of their duties, or use any other direct or indirect benefits provided by such persons (with the exception of symbolic gifts given as a common courtesy, or souvenirs given during official events), which should be specifically stipulated in an internal company documents.

3.1.4. Members of the board of directors cannot efficiently discharge their duties if there is a conflict of interest between the company and the member of the board of directors personally. A conflict of interest may arise, for instance, upon entering into a transaction in which a member of the board of directors is interested, whether directly or indirectly, in the acquisition of shares (an interest) of, or taking an official position with, legal entities competing with the company, or establishment of contractual relations with such legal entities.

Therefore, it is recommended that members of the board of directors should refrain from actions that may result or may potentially result in a conflict between their own interests and the interests of the company and, if such conflict of interests exists or arises, they must disclose it to the board of directors and comply with the company's procedures applicable to transaction in which a member of the board of directors is interested.

In addition, members of the board of directors are advised to refrain from voting in situations where they have a personal interest in a certain resolution of the matter in question. At the same time, members of the board of directors should immediately inform the board of directors through the secretary of the company of both such an interest and the grounds for it.

3.1.5. Members of the board of directors should perform their duties taking into account the interests of other affected persons, including employees, counteragents of the company, and government and municipal bodies in which the company or its separate structural subdivisions are located.

3.2. It is recommended that members of the board of directors should actively participate in meetings of the board of directors and committees of the board of directors

3.2.1. In electing a member of the board of directors shareholders expect that the director will employ his/her best personal and professional qualities for the benefit of the company. Therefore, each member of the board of directors should actively take part in the work of the board of directors and, in particular, take an active part in discussing and voting on matters on the agenda of meetings of the board of directors and participate in the work of committees established by the board of directors. It is advisable that members of the board of directors notify the board of directors of their inability to attend any meeting of the board of directors in advance.

3.2.2. The law provides that any member of the board of directors may demand the convocation of a meeting of the board of directors. Active participation in the work of the board of directors implies, among other things, that each member of the board of directors must demand that a meeting of the board of directors is called to discuss a matter that, in such director's opinion, requires prompt consideration in the best interests of the company and needs to be resolved by the board of directors.

3.2.3. Members of the board of directors should have sufficient time for performance of their functions. Therefore, it is advisable that the board of directors of the company develops rules for participation of its members in the boards of directors of other companies, and ensures that these rules are observed in situations where members of the board of directors are nominated, or accept nominations, for positions in the boards of directors of, or other official positions with, other companies.

3.3. Members of the board of directors should not disclose confidential and insider information about the company and use such information in their personal interests or the interests of third parties

Use of confidential and insider information about the company by members of the board of directors and other persons may undermine confidence in the company and inflict damage upon shareholders and creditors of the company. Therefore, members of the board of directors should take steps to protect such information. Moreover, members of the board of directors who have access to confidential and insider information about the company should not disclose it to those who do not have such access, or use it in their own interests or in the interests of third parties. These standards should also be set forth in an internal company documents. Moreover, it is advisable that contracts between the company and members of the board of directors should stipulate liability for failure to comply with this requirement.

In order to create an effective mechanism for prevention and identification of unauthorized use of confidential and insider information, it is advisable that the company demands that members of the board of directors notify the board of directors in writing of their intention to enter into transactions, in particular involving securities of the company or its subsidiary (controlled) companies, and disclose information about previous transactions with such securities in accordance with the procedure for disclosing material facts.

It is advisable that contracts between the company and members of the board of directors should stipulate the latter's obligation to refrain from disclosure of confidential and insider information for a period of ten years after they leave the company.

3.4. It is recommended that the duties of members of the board of directors be clearly defined and incorporated into internal documents of the company

The knowledge by each member of the board of directors of his/her obligations and of the rights conferred upon him/her is a critical condition of efficient discharge by the board of directors of its functions. Besides, availability of a list of clearly delineated duties of members of the board of directors increases the probability of holding them liable in situations provided by

the applicable legislation. In this connection, it is advisable that the company should develop and incorporate into its internal documents a detailed list of duties of the board of directors so that members of the board of directors may discharge them with utmost efficiency.

By the same token, proper discharge of the duties imposed upon the members of the board of directors is impossible without vesting them with appropriate rights. Therefore, it is also recommended that the internal documents of the company should contain a list of rights granted to members of the board of directors, including, specifically, their right to demand information from executive bodies of the company.

4. Operations of the Board of Directors

4.1. The chairman of the board of directors should ensure efficient organization of operations and interaction between the board of directors and other bodies of the company

4.1.1. The board of directors is headed by the chairman whose main task is to ensure that the board of directors successfully attains its aims and objectives. The ability of the chairman of the board of directors to properly discharge his/her duties depends not only on him/her being vested with appropriate powers, which should be defined in the internal documents of the company in as much detail as possible, but also on his/her personal and professional qualities. The person acting as the chairman of the board of directors should have an impeccable professional reputation in the operation of the company and ample managerial experience. It should be a person of undisputed integrity, steadfastness and commitment to the interests of the company, enjoying the unconditional trust of shareholders and members of the board of directors.

4.1.2. The chairman of the board of directors should form the agenda of meetings of the board, facilitate efficient resolution of the issues on the agenda and, if necessary, organize an open discussion of such issues in a friendly and constructive atmosphere. It is advisable that internal documents of the company impose upon the chairman of the board of directors the responsibility to take steps to ensure that all members of the board of directors receive in a timely fashion all information required for resolution of the agenda issues, to encourage members of the board of directors to freely express their opinions on these issues and openly discuss them at meetings and to initiate drafting of board resolutions.

4.1.3. The chairman of the board of directors should provide members of the board of directors with an opportunity to express their points of view on matters being discussed and facilitate the search for a decision agreed among members of the board of directors in the shareholders' interests. In doing so, the chairman should take a firm position, and at all times act in the best interests of the company.

4.1.4. It is recommended that the chairman of the board of directors should maintain ongoing contacts with the other bodies and officers of the company. Such contacts should not only facilitate receipt of full and accurate information that the board of directors needs to make decisions, but also ensure, where possible, effective cooperation of such bodies and officers among themselves and with third parties.

4.1.5. The chairman of the board of directors should efficiently organize the work of committees established by the board of directors, and in doing so take the initiative in nominating members of the board of directors for positions in various committees based upon such members' professional and personal qualities, taking into account the views of members of the board of directors with respect to the creation of such committees and ensuring, if this becomes necessary, that matters considered by such committees are presented for determination by the board of directors. The chairman of the board of directors should also take all necessary administrative measures to ensure that committees of the board of directors operate in the most efficient manner possible. It is advisable that the chairmen of various committees keep the chairman of the board of directors informed about the proceedings of their respective committees.

4.2. It is recommended that meetings of the board of directors should be conducted on a regular basis in accordance with an approved plan

4.2.1. The board of directors should function efficiently and rationally in order to optimize the management decision-making process in the interests of the company. Therefore, it is critical that meetings of the board of directors be conducted regularly.

It is recommended that meetings of the board of directors should be conducted when necessary, generally at least once every six weeks, in accordance with the plan for holding such meetings approved by the board of directors for its term in office and containing a list of matters to be considered at appropriate meetings. This list, which can be amended and supplemented, should incorporate opinions expressed by the persons and bodies entitled to call meetings of the board of directors in accordance with the applicable legislation and the charter of the company.

4.2.2. The first meeting of a newly-elected board of directors should be held not later than one month after the date of the general shareholders meeting that elected the board of directors. The first meeting of the board of directors should define, confirm or adjust the list of priorities of the board of directors, establish its committees and elect their chairmen.

4.2.3. In order to ensure that the board of directors operates in the most efficient manner, it is advisable that the company should develop and incorporate into its internal documents procedures for conducting meetings of the board of directors.

4.3. It should be possible to conduct meetings of the board of directors both in person and by absentee vote

4.3.1. The best way to conduct meetings of the board of directors is face-to-face discussion that gives members of the board of directors an opportunity to consider issues on the agenda. Such discussion is possible only if members of the board of directors are jointly present at the place where the meeting is conducted.

It is recommended that the charter of the company should contain a provision whereby in situations where resolutions of the board of directors are passed by personal vote, written

opinions of absent members are taken into consideration, while the votes of absentees expressing their opinions in written form are not counted towards the quorum required for transaction of business at the meeting of the board of directors.

4.3.2. Considering the need for expedient resolution of issues within the scope of authority of the board of directors, it is recommended that the charter or other internal documents of the company should enable directors to pass resolutions by absentee vote. In this case it is necessary to develop procedures and determine the deadlines for delivery of an absentee ballot to each member of the board of directors and for receipt of completed ballots. These deadlines should be reasonable and give members of the board of directors enough time to receive the ballots and make decisions on all matters put to vote.

4.4. It is recommended that the format in which the meeting of the board of directors is held be selected based on the importance of the matters on the agenda

As issues on the agenda can be properly discussed only when members of the board of directors meet in person, resolutions on the most important matters should be passed by personal vote.

It is advisable that resolutions on the following matters be passed by members of the board of directors only by personal vote:

(1) approval of the priority areas of operation for the company and the company's financial and business plan;

(2) convening the annual general shareholders meeting and resolution of issues related to its convocation and organization;

(3) preliminary approval of the annual report of the company;

(4) convening, or refusing a request to convene, an extraordinary general shareholders meeting;

(5) election and reelection of the chairman of the board of directors;

(6) creation and early termination of executive bodies of the company, if the company charter places this within the authority of the board of directors;

(7) suspension of the director general of the company and appointment of the provisional director general of the company, unless the company charter specifically vests the authority to establish executive bodies in the board of directors;

(8) submission for consideration by the general shareholders meeting of proposals with respect to reorganization or liquidation of the company; and

(9) increasing the charter capital of the company by issuance of additional shares within the number and categories (types) of authorized shares, provided that this matter is assigned by the charter of the company to the competence of the board of directors.

4.5. Procedures for convening and preparation for the meeting of the board of directors should give all members of the board of directors an opportunity to properly prepare for such meeting

4.5.1. The convocation and preparation for the meeting of the board of directors is important for informed decision making. Therefore, members of the board of directors should be notified of the convening of a meeting of the board of directors, its format and agenda well in advance, to allow them sufficient time to form their opinions with respect to the matters on the agenda.

4.5.2. It is impossible to pass resolutions on the matters on the agenda of a meeting of the board of directors without prior review of relevant reference materials on which members of the board of directors can base their opinions. Therefore, it is recommended that such materials should be delivered to members of the board of directors concurrently with the notice of the meeting of the board of directors. Before discussing matters that are subject to preliminary consideration by committees of the board of directors, members of the board of directors should have an opportunity to review the findings of the appropriate committees in advance.

4.5.3. It is recommended that the internal documents of the company should determine the form of notice and the method of delivery (provision) of reference materials (mail, telegraph, teletype, telephone, e-mail, etc.) that is the most convenient and acceptable to all members of the board of directors.

4.5.4. If the agenda of a meeting of the board of directors includes an issue relating to election of the director general or members of the managerial board, then it is advisable that members of the board of directors present the written consent of the candidate to occupy the relevant position. In the absence of written consent, it is recommended that candidates should attend the meeting of the board of directors in person and verbally confirm such candidate's to occupy the relevant position, before the election of such candidates is put to the vote.

4.6. Members of the board of directors should have access to all information that they need to properly discharge their duties

Inasmuch as the law and, in a number of cases, internal documents impose on members of the board of directors certain responsibility for their decisions, it is very important that the directors have access to all necessary information and have an opportunity to request information from members of executive bodies and officers of the company, and receive full and accurate answers.

Therefore, it is necessary for the company to create a mechanism that will ensure that members of the board of directors are provided with information about the most important

developments in the financial and business developments in the company, as well as about other developments that may have a bearing on the interests of shareholders.

In addition, internal documents of the company should provide that the director general, members of the managerial board and heads of major divisions of the company have a duty promptly to submit full and reliable information pertaining to all matters on the agenda of meetings of the board of directors and any other information as may be requested by any member of the board of directors, and should provide penalties for failure to do so.

It is also advisable that executive bodies should provide information in accordance with approved internal procedures, for instance, through the secretary of the company.

4.7. *The board of directors should create committees for preliminary consideration of the most important matters assigned to the authority of the board of directors*

4.7.1. One of the conditions for effective performance of its functions by the board of directors is the creation of standing committees. The role of such committees is to hold preliminary discussions on the most important matters and issue recommendations based upon which the board of directors can make informed decisions on such matters. Considering the basic functions performed by the board of directors, it is advisable that the company's charter provide for a strategic planning committee, an audit committee, a human resources and remuneration committee, and a corporate conflicts resolution committee. The board of directors may establish other permanent or *ad hoc* (for resolution of specific matters) committees as it may deem necessary, in particular, a risk management committee and an ethics committee.

Establishment of such committees staffed by members of the board of directors with experience and knowledge in the appropriate areas will enhance the efficiency and improve the quality of work performed by the board of directors and, as a result, will facilitate creation of effective control mechanisms to supervise the operation of the company's executive bodies.

4.7.2. In order to streamline the operations of committees, it is advisable that the board of directors approves a by-law providing procedures for their establishment and operations.

The number of members in each committee should be determined with a view to enable the committee to review matters under consideration in the most comprehensive fashion and taking into account the opinions of all members.

Inasmuch as the work of a committee involves detailed review by committee members of each matter under consideration, it is recommended that participation of members of the board of directors in multiple committees should be restricted.

If necessary, committees may enroll experts with required professional skills relevant to the work of a particular committee.

4.7.3. The chief role in organizing the work of a committee is played by its chairman, whose main task is to ensure the objectivity of recommendations issued to the board of directors.

Therefore, it is advisable that committees of the board of directors are headed by members of the board of directors who do not hold official positions with the company, unless this Code provides other, specific recommendations as to the requirements applicable to candidates for the positions of committee chairpersons.

4.8. The strategic planning committee contributes to enhanced efficiency of the company's operation over the long-term

The strategic planning committee should play the key role in defining the strategic goals and objectives of the company, determining its priority areas of operation, developing recommendations on the dividend payment policy of the company, evaluation of the long-term productivity of the company's operations, and advising the board of directors on adjustments of the company's development policy based upon the need to enhance the efficiency of the company's operations taking into account commodity and capital market trends, the operating results of the company and its competitors, as well as other factors.

4.9. The audit committee ensures proper supervision of the company's financial and business operations by the board of directors

The audit committee ensures actual participation of the board of directors in the supervision of the company's financial and business operations. In its work, the audit committee proceeds from the assumption that members of the board of directors need professional information about the financial and business operations of the company to enable the board of directors to control implementation of the company's financial and business plan, and to ensure the efficiency of its internal control and risk management systems.

One of the main functions vested in the audit committee is to develop recommendations for the board of directors on selection of an independent audit organization (auditor), as well as interaction with the audit commission of the company and the independent audit organization (auditor) of the company.

4.10. The human resources and remuneration committee deals with filling managerial positions with qualified specialists and providing adequate incentives for their successful work

4.10.1. The functions of the human resources and remuneration committee should include the following:

(1) definition of eligibility criteria applicable to candidates for the position of member of the board of directors;

(2) development of the company's remuneration policy, which specifies basic principles and criteria for determining the amount of remuneration payable to the members of the board of directors, the director general, members of the managerial board, managing organization (manager) and heads of major divisions of the company, as well as other benefits available to the aforementioned persons at the expense of the company (including life insurance,

health insurance, and non-governmental pension benefits), and criteria for evaluation of their performance;

(3) selection of eligibility criteria applicable to candidates for the positions of the director general (managing organization, manager), members of the managerial board, and heads of major divisions of the company;

(4) preparation of the terms and conditions of employment contracts between the company on the one hand and the director general (managing organization, manager) and members of the managerial board on the other hand;

(5) preliminary assessment of candidates for the positions of director general (managing organization, manager) and members of the managerial board;

(6) periodic performance evaluation of the director general (managing organization, manager) and members of the managerial board, and preparation of recommendations for the board of directors with respect to reappointment of the aforementioned officers; and

(7) consideration and approval of the personnel policy of the company, including matters related to wages and salaries.

4.10.2. When selecting eligibility criteria applicable to candidates for the positions of director general (managing organization, manager), members of the managerial board, and heads of major divisions of the company, and developing the relevant remuneration policy, it is necessary to take into consideration the scope of their responsibilities, required type and level of qualification, experience, personal and business qualities of the candidates, typical level of remuneration in the company and in the industry in general, and the financial situation of the company. The human resources and remuneration committee should continually monitor conformity of the aforementioned criteria and remuneration policy to the company's development strategy and financial situation, as well as to the current situation in the job market.

The committee prepares its proposals with respect to the remuneration of the director general (managing organization, manager) or a member of the managerial board in compliance with the company's remuneration and development policies and the interests of the company.

4.10.3. In order to ensure objectivity of the recommendations issued by the human resources and remuneration committee, it is advisable that it is staffed exclusively with independent directors. When objective circumstances make this impossible, the committee should, as a minimum, be headed by an independent director and consist of those members of the board of directors who do not hold official positions with the company.

4.11. The corporate conflicts resolution committee contributes to prevention and effective resolution of corporate conflicts that involve shareholders of the company

One of the most important conditions for safeguarding the rights and interests of shareholders is the creation in the company of a mechanism for resolution of disputes arising out

of internal corporate conflicts, as well as those between the company and its shareholders. The corporate conflicts resolution committee should play a major role in the settlement of such conflicts.

In order to ensure objective evaluation of corporate conflicts and their effective settlement, it is recommended that all members of the committee should be independent directors. When objective circumstances make this impossible, it is recommended that the committee should, as a minimum, be headed by an independent director and consist of those members of the board of directors who do not hold official positions with the company.

4.12. A company may wish to establish an ethics committee to ensure that the company complies with ethical standards and contributes to the creation of an atmosphere of trust within the company

The ethics committee defines the ethical standards for the company's operations, taking into account its area of activity. It is recommended that the company develop internal regulations, which should be approved by the board of directors and contain a description of the ethical standards by which the company is guided in its operations (hereinafter referred to as "Ethical Standards").

These Ethical Standards should reflect the company's social responsibilities and, in particular, state its duty to maintain high standards of quality for its products, comply with environmental and safety regulations, as well as the company's awareness of the need to develop and implement new technologies and improve conditions of labor. In addition, the Ethical Standards should prevent the officers of the company from misusing their authority to the detriment of the company and third parties through, among other things, illegal use of confidential and insider information. The Ethical Standards should be designed to reflect fundamental social values, such as honesty, mutual respect, and equity, and business principles, such as profitability, customer satisfaction, quality of products, workplace health care, safety and efficiency of labor. It is recommended that the ethics committee should detect and prevent violations of the applicable legislation and ethical standards.

4.13. It is recommended that the charter of the company provides for the right of shareholders to demand convocation of a meeting of the board of directors

Shareholders should be able to influence operations of the board of directors. Companies should afford their shareholders an opportunity to initiate consideration by the board of directors of matters that they regard as important to the company.

At the same time, the board of directors is an independent governing body of the company which should not be subject to undue influence from other bodies or shareholders of the company. Taking this into consideration, it is recommended that the charter or a by-law of the company regulating the operations of the board of directors should stipulate that the right to demand the convocation of a meeting of the board of directors should be conferred only upon shareholders holding two 2 percent or more percent of voting shares, and only for consideration of the matters specifically listed in the charter of the company.

4.14. The quorum for transaction of business at the meetings of the board of directors should be determined so as to ensure adequate representation of non-executive and independent directors

The Code provides that the board of directors should comprise non-executive and independent directors and executive directors. The company should ensure active participation of such directors in the decision making process of the board of directors. In this respect it is recommended that the company specify the quorum determination procedure in its charter, such that the independent directors are made capable of influencing the decisions made by the board of directors, especially when the most significant decisions are to be made that will materially influence company's operations.

4.15. It is recommended that a qualified majority of the serving members of the board of directors attend meetings of the board of directors that pass resolutions on the most important company matters

The law requires that the quorum for transaction of business at a meeting of the board of directors is to be specified in the company's charter, but in any event should be not less than one half of the number of the serving members of the board of directors. With a view to ensuring that the opinions of all members of the board of directors are taken into account in the most comprehensive fashion on the most important matters affecting the operations of the company, it is advisable that the charter or other internal regulations of the company establish stricter quorum requirements. In particular, for approval of priority matters and the financial and business plan of the company, approval of the company's dividend policy, submission for consideration by the general shareholders meeting of proposals with respect to reorganization or liquidation of the company, decrease (increase) of the charter capital of the company, and preparation of recommendations on the amount of annual dividends, the quorum should be a qualified majority of two-thirds of the number of the serving members of the board of directors.

4.16. In order to enforce effectively the directors' liability provisions, it is recommended that detailed minutes of meetings of the board of directors be kept

4.16.1. The law provides that if a resolution passed by the board of directors results in the company incurring losses, only those members of the board of directors who voted for such resolution will be held liable. Therefore, it is important to keep detailed minutes of meetings of the board of directors. Minutes of meetings give only a brief summary of remarks made by the speakers, while verbatim reports should contain a word-for-word account of discussions held on each matter and a detailed description of all proposals and arguments presented by each member of the board of directors in the course of the meeting. In addition, it is necessary to ensure that the ballots used for voting on agenda issues at each meeting of the board of directors, as well as written opinions of members of the board of directors who were not able to attend any such meeting, are preserved together with the minutes and verbatim reports of the meetings of the board of directors.

4.16.2. Each member of the board of directors should be given an opportunity to obtain full information on the deliberations on agenda issues of the meetings of the board of directors.

To do this it is necessary to implement a procedure whereby all members of the board of directors are provided with copies of the minutes and verbatim reports of meetings of the board of directors, as well as reports detailing the outcome of the voting when it is conducted by absentee ballots.

5. Remuneration of Members of the Board of Directors

5.1. It is recommended that the remuneration payable to members of the board of directors be equal for all members of the board of directors

5.1.1. It is advisable that the amount of remuneration payable to all members of the board of directors be the same, regardless of whether the member of the board of directors is an executive, non-executive or independent director.

5.1.2. Criteria for determination of the amount of remuneration payable to members of the board of directors should be developed by the human resources and remuneration committee and approved by the board of directors. Inasmuch as these criteria may significantly affect the operations of the board of directors, it is recommended that they should be incorporated into the internal documents governing these operations. This will create a transparent mechanism enabling shareholders to exercise control over the quality of the performance of members of the board of directors and the level of their remuneration.

5.1.3. It is recommended that the annual report of the company reflect the results of the evaluation of the performance of the board of directors, and contain information on the total amount of remuneration and/or compensation of members of the board of directors.

6. Liability of Members of the Board of Directors

6.1. Members of the board of directors shall be held liable for improper discharge of their duties

6.1.1. One of the most effective methods of ensuring proper discharge by members of the board of directors of their duties is statutory liability to the company for the losses caused by their culpable actions. The company should actively exercise its right to claim damages from members of the board of directors not only to compensate losses suffered thereby but also to encourage members of the board of directors to perform their duties in a proper way.

At the same time, it should be borne in mind that managing the affairs of the company is a complex process with the risk that decisions made by the board of directors acting reasonably and in good faith will ultimately prove wrong and entail adverse consequences for the company.

Since one of the grounds for director's liability is culpability, holding a director liable depends on whether the director acted reasonably and in good faith, i.e. whether the director exercised diligence and care, which should be expected from a good manager, and whether the director took all steps to perform his/her functions properly. A member of the board of directors is deemed to be acting reasonably and in good faith if he is not personally interested in a specific

decision and has thoroughly examined all information required for making such decision; and, at the same time, all other concomitant circumstances should testify that the director is acting exclusively in the best interests of the company.

Compliance with this approach is extremely important, since otherwise the board of directors may lose initiative and become an obstacle to successful decision-making.

6.1.2. It is advisable that the company take measures to terminate the authority of members of the board of directors liable for inflicting damages and make them responsible for breach of their obligations towards the company. It is also recommended that the company, acting at its own expense, should obtain liability insurance for members of the board of directors, so that if their actions result in losses to the company or third parties, these losses can be compensated by an insurance company.

Liability insurance for members of the board of directors will not only allow the company to use civil law remedies more productively, it will also help to convince competent specialists, who otherwise would feel uneasy about the possibility of being sued for extensive damages, to become members of the board of directors.

CHAPTER 4

EXECUTIVE BODIES OF THE COMPANY

The executive bodies of the company, including the managerial board and the director general are key elements of the corporate conduct structure.

According to the law, the executive bodies are charged with management of the company's current affairs, making them responsible for attainment of the company's goals and objectives and implementation of the company's strategies and policies.

Executive bodies should safeguard the interests of the company; in other words, they should manage the affairs of the company so as to balance both the need to pay dividends to shareholders and to stimulate the growth of the company.

In order to achieve these objectives, executive bodies carry out the following tasks: they are responsible for everyday operations of the company and their compliance with the financial and business plan of the company, and act timely, efficiently and in good faith to fulfill resolutions passed by the board of directors and the general shareholders meeting.

To enable executive bodies to perform their functions, they are vested with extensive authority to dispose of the company's assets; therefore, the work of executive bodies should be organized so as to promote trust in them by shareholders. This trust should be earned both by application of strict eligibility criteria defining personal and professional qualities of the company's officers serving in executive bodies, and by implementation of procedures placing executive bodies under the effective control of shareholders.

1. Authority of Executive Bodies

1.1. Companies are advised to create a managerial board authorized to resolve most complex matters dealing with management of the current affairs of the company

1.1.1. The law permits creation of a managerial board of the company, leaving the matter of separation of powers between the sole and managerial boards to the company's discretion. This approach is based on the fact that management of the current affairs of the company implies the necessity of resolving some issues collectively as opposed to individually. These may include both matters lying beyond the framework of customary business operations of the company, and matters that, although they can be characterized as customary, have significant impact on the company or require collegiate approval.

In order to resolve the above matters, companies are advised to create a managerial board whose authority of which should be defined in the company's charter in the most comprehensive manner possible.

1.1.2. It is recommended that the authority of the managerial board of the company should cover, first and foremost, development of the most important documents of the company (guidelines detailing priority areas of operation for the company and its financial and business

plan to be approved by the board of directors) and approval of the company internal documents governing matters within the authority of the executive bodies.

1.1.3. It is desirable for the managerial board to approve transactions of the company having a value equal to, or in excess of, 5 percent of the total value of the company's assets with prompt notice of the board of directors of such transactions. It is also recommended that transactions of the company with a value equal to, or in excess of, 10 percent of the total value of company's assets (except when the company customarily engages in such transactions in the ordinary course of its business) be approved by the board of directors of the company.

It is also advisable to include within the authority of the managerial board approval of any real estate transactions and loans, provided that the company does not customarily engage in such transactions in the ordinary course of its business.

It is advisable that transactions that involve real estate and loans received by the company in connection with its routine business operations and the value equal to, or in excess of, 5 percent of the total assets of the company be approved (like any other transactions with a value equal to, or in excess of, 5 percent of the total assets of the company) by the managerial board.

1.1.4. The company is advised to include within the authority of the managerial board a number of matters related to the company's relations with its subsidiaries, dependent companies, affiliates, representative offices and other organizations controlled by the company, including the following matters:

- (1) appointment of the heads of affiliates and representative offices of the company;
- (2) approval of resolutions on matters for the agenda of general shareholders meetings of wholly-owned subsidiaries (supreme managerial bodies of other wholly-owned entities), except cases when these matters are within the authority of the board of directors of the company;
- (3) appointment of, and issuance of voting instructions to, persons representing the company at general shareholders meetings of wholly-owned subsidiaries (supreme managerial bodies of other wholly-owned entities); and
- (4) nomination of candidates for positions of director general, managing organization, manager, members of the managerial board, members of the board of directors, as well as candidates for positions in other governing bodies of entities in which the company has equity.

1.1.5. It is reasonable to delegate to the managerial board such functions as approval of internal work schedules, job descriptions for all categories of the company's employees, internal documents governing imposition of penalties and use of incentives, agreement on conditions of material remuneration and the basic conditions of employment contracts with middle managers, as well as consideration and approval of resolutions on execution of collective agreements and employment contracts.

1.2. Executive bodies should operate in accordance with the provisions of the financial and business plan of the company

The company operates in accordance with its financial and business plan annually approved by the board of directors. This document contains basic guidelines for the day-to-day operations of the company, and its implementation is the main criterion for evaluating the performance of executive bodies whose prime responsibility is to manage the current affairs of the company.

Executive bodies should seek the approval of the board of directors for transactions that are beyond the scope of the financial and business plan.

Therefore, it is advisable that the company should develop internal documents detailing procedures for obtaining approval for operations outside the scope of the financial and business plan.

2. Creation and Composition of Executive Bodies

2.1. The composition of executive bodies of the company should provide for the most effective performance of functions vested in the executive bodies

2.1.1. To discharge the duties of the director general or a member of the managerial board of the company, an individual should have the professional qualifications required for managing the current affairs of the company. This does not mean that the director general and all members of the managerial board should be experts in the area of operations of the company. However, it is desirable that a number of individuals with specialized knowledge in this area should be included in the managerial board.

It is desirable that the individual appointed to the position of director general should have both specialized and managerial experience.

It is recommended that specific eligibility criteria applicable to members of the managerial board and to the director general, including those specified in this chapter, should be detailed in the company's charter or appropriate internal documents of the company.

2.1.2. The director general and members of the managerial board should act in the interests of the company. The personal qualities of the director general and members of the managerial board should not raise any doubts that they will at all times act in the best interests of the company; therefore, it is recommended that only persons with impeccable reputations should be appointed to these positions. Commission by a person of economic crimes or crimes against the government, public bodies or bodies of local self-government, or the fact that such person has a record of administrative offences, primarily in such areas as entrepreneurial operations, finance, taxes and duties, stock market operation, can be one of the factors having an adverse effect on such person's reputation.

2.1.3. Members of the managerial board or the director general of the company having a conflict of interests due to their participation or membership in the governing bodies of, or holding official positions with, legal entities competing with the company constitutes grounds for doubt that they will act exclusively in the best interests of the company.

Therefore, it is advisable that the company's charter provide that individuals who are members, officers or employees of legal entities competing with the company should not be appointed (elected) to the positions of director general or member of the managerial board of the company, which should also be stipulated in the contract with the director general or such members of the managerial board.

2.1.4. The director general is an individual whom shareholders have entrusted the management of the current affairs of the company, i.e. daily resolution of matters arising in the course of the company's business operations. Resolution of these matters depends on the personal qualities and professional qualifications of the director general, on the basis of which he was appointed (elected) to his position.

However, trust requires a high level of accountability. Shareholders have the right to expect that the director general will make ample use of his personal qualities and professional qualifications in the day-to-day management of the company's affairs. Evidently, this may not happen if the director general occupies other positions and is engaged in other activities that take up considerable time and, therefore, prevent him from properly discharging his duties.

Therefore, it is advisable to ensure that the company's charter provides that the director general is not to be engaged in any activities other than the discharge of his duties related to the management of the current affairs of the company. A provision to this effect should be made in the contract concluded with the director general. The only exception to this rule is membership of the director general (with consent of the company) in the boards of directors of other legal entities in situations when it is necessary to safeguard the interests of the company, for instance, membership in the boards of directors of the company's subsidiaries. In any event, the director general should have sufficient time for the proper discharge of his managerial duties.

2.1.5. Members of the managerial board are responsible for the management of the current affairs of the company. To fulfill this task effectively, they should be adequately informed of the current problems facing the company, and work directly with its middle management.

In determining the number of members of the managerial board, the company should proceed from the requirement that the number of members of the managerial board be optimal for productive, constructive discussion, and making prompt, informed decisions.

It is advisable to have the basic guidelines for creation of the managerial board of the company reflected by the board of directors in internal documents of the company.

2.1.6. It is recommended that the company include in its charter provisions stipulating procedures for appointing new members of the managerial board, in particular as a result of the death or incapacity of existing members.

2.1.7. Pursuant to the law, the general shareholders meeting may resolve to delegate the powers of the director general to a professional manager or managing organization.

When proposing a professional managing organization for approval by the general shareholders meeting, the board of directors is advised to provide shareholders with complete information about the managing organization, including information about the risks to such an organization associated with delegating authority, and to show the need for such delegation.

In addition, it is important to identify persons who will, on behalf of the managing organization, be accountable to the board of directors and the general shareholders meeting of the company for the work done by the managing organization.

2.1.8. The director general and members of the managerial board of the managing organization or the company's manager should meet the minimum eligibility criteria set for the director general and members of the managerial board of the company. The company's internal documents may contain additional requirements.

In the interests of the company, it is advisable that the managing organization (manager) has at its disposal funds sufficient for reimbursement of possible losses of the company and third parties resulting from its operations. In addition, it is not advisable that the managing organization (manager) carry out similar functions at a rival company or have any connection with the company apart from carrying out the functions of the managing organization (manager).

It is recommended that eligibility criteria for the managing organization (manager) be set forth in the charter or other internal documents of the company.

2.1.9. The company's charter or other internal documents should provide that, prior to approval of the delegation of the powers of the director general of the company to a managing organization (manager), the board of directors should determine the procedures applicable for selection of the managing organization (manager), such as use of a tender for services or another competitive selection process. It is recommended that prior to making a decision on the selection of such managing organization (manager), the board of directors and the shareholders should be provided with:

- (1) a list of the other companies managed by the managing organization (manager);
- (2) a list of members of the board of directors, other executives and principal shareholders of such managing organization (manager) and such other information as may be required to identify potential conflicts of interest;
- (3) financial reports of the managing organization (manager) to the extent required to assess the ability of such managing organization (manager) to satisfy claims of improper

discharge of its duties made against it with its assets or insurance benefits payable to it under relevant insurance agreements;

(4) the charter of such managing organization (manager); and

(5) the proposed contract for services between the company and such managing organization (manager).

2.1.10. The company's agreement with such managing organization (manager) should establish:

(1) the goals which the managing organization (manager) is to achieve;

(2) the managing organization's (manager's) compensation;

(3) the standards of liability applicable to the managing organization (manager) in the performance of its duties as manager;

(4) the procedures for removal of the managing organization (manager);

(5) the information and reports that the managing organization (manager) is to provide to the board of directors and the shareholders regarding its activities and the company's performance, and the frequency with which such information and reports are to be provided; and

(6) the list of officers of the managing organization who have a duty to submit reports on its operations.

2.2. *It is recommended that members of the managerial board and the director general be elected by a transparent procedure including submission of complete information on such persons to the shareholders*

2.2.1. It is recommended that a maximum of information about the candidates to the positions of director general and members of the managerial board be provided to shareholders. In particular, it is advisable that shareholders should receive information about the age and education of the candidate, the candidate's positions in the previous five years, relations with the company, membership of the boards of directors or positions with other corporate entities, as well as nominations for the position of the director general or other official positions with other corporate entities, relations with affiliated persons and major business partners of the company, and other information connected with the financial position of the candidate or about circumstances which may affect execution of the candidate's duties.

Therefore, it is advisable that the company's board of directors should determine the list of information about candidates for the positions of the director general and members of the managerial board that is to be furnished to shareholders. It is also recommended that shareholders be informed about a candidate's refusal to disclose any such information.

2.2.2. It is advisable that the agreement between the company and its director general and members of its managerial board should contain a detailed list of these officers' rights and duties. It is recommended that the agreement should stipulate, among other things, the grounds for its termination and the duty of any of these persons to give the company prior notice of their intention to terminate their employment with the company, succession procedures for a newly elected director general (member of the managerial board), and an obligation to refrain from disclosure of confidential and insider information both during their work in the company and following their discharge for any reason, and their ability to hold positions in other companies during discharge of their duties of the director general (member of the managerial board) of the company.

3. Responsibilities of Executive Bodies

3.1. The director general (managing organization, manager) and members of the managerial board should act reasonably, in good faith and in the best interests the company.

3.1.1. The law requires that in exercising their rights and discharging their duties the director general and members of the managerial board act in good faith, reasonably and in the best interests of the company. The obligation of the above-mentioned persons to act reasonably and in good faith in the best interests of the company means that in exercising their rights and performing their duties provided for in the charter they should use the due diligence and care that could be expected from a good manager in a similar situation and under similar circumstances.

3.1.2. If executive bodies are to act in the best interests of the company, they need to be trusted by shareholders, which means that the director general and members of the managerial board should not be subject to outside influences seeking to induce them to commit actions or make decisions contrary to such interests. It is necessary to take all possible measures to prevent such situations.

In particular, the director general, members of the managerial board, or their respective affiliated persons should not accept gifts or receive any other benefits, whether directly or indirectly, intended to influence any decisions made by the director general or members of the managerial board, which should be specifically reflected in internal documents of the company (with the exception of symbolic gifts given as a common courtesy, or symbolic souvenirs given during official events).

3.1.3. Members of executive bodies of the company have a duty to ensure that the operations of the company are conducted in strict compliance with the existing legislation, the charter and internal documents of the company, and the policies pursued by the board of directors of the company. Members of executive bodies of the company should also ensure that the company avoids illegal actions, payments or work methods, and should promptly notify the board of directors in writing of all such instances. It is recommended that executive bodies should present reports on their operations to the board of directors on a monthly basis.

Moreover, executive bodies should organize the company's operations so as to make the system of collection, processing and presentation of accurate information about quantitative financial and material indicators of the company's operations an efficient decision-making tool.

3.1.4. The director general and members of the managerial board are not able to efficiently carry out their duties if there is a conflict between the interests of the company and their private interests. For example, such conflict of interests can arise if a member of the managerial board or the director general is directly or indirectly associated with entities competing with the company, for instance, due to his/her ownership of shares (stakes) in any such entity. In this connection, the director general and members of the managerial board should refrain from actions that will result in a conflict between their interests and the interests of the company and, should any such conflict arise, they should immediately notify the board of directors accordingly via the secretary of the company.

3.2. The director general (managing organization, manager) and the members of the managerial board should not disclose confidential and insider information about the company or use such information in their personal interests or the interests of third parties

Any information about the company that is important for the company, its shareholders, investors and business partners may be valued as a monetary equivalent and de facto qualify as a company "asset". Unauthorized use of confidential and insider information about the company may inflict substantial damage upon the company and its shareholders.

Therefore, executive bodies should take all necessary steps to protect such information. The director general (managing organization, manager) and members of the managerial board who have access to confidential and insider information about the company should not disclose it to those who do not have such access, or use it in their own interests or in the interests of third parties. These requirements, as well as liability for the breach thereof, should be stipulated in agreements concluded by the company with the above officials.

3.3. Executive bodies should take into account the interests of third parties to ensure the efficient operation of the company

The main objective of executive bodies is to ensure efficient operation of the company. However, to operate efficiently, the company needs to take into account the interests of other persons and entities, including the company's employees, business partners, government bodies and municipalities hosting the company or its separate divisions.

It is recommended that executive bodies should take into account the interests of the company's employees by maintaining contacts with their professional organizations (trade unions).

Executive bodies of a company that is the main enterprise in a certain locality should also take into account the impact of their decisions on the economy and welfare of the population in that locality.

3.4. Executive bodies should create an atmosphere in which the company's employees' are interested in the company's success

Executive bodies should strive to create an environment in which employees value their employment with the company and recognize that their financial position depends on the company's general success.

Determination of the salary and other benefits should be based on productivity and other factors which influence compensation. The company should develop criteria for salary determination, which should be regularly reevaluated based on general trends in the job market and revised if necessary.

It is advisable that the company regularly conduct conferences inviting both members of executive bodies and employees when executive bodies need to make a decision that will directly affect working conditions. Such conferences will enable executive bodies to learn employees' opinions and incorporate them into any proposed resolution that directly bears upon their interests. The company should develop and approve a procedure for holding such conferences and the method of convening them.

Executive bodies should promptly notify employees of all decisions that may affect working conditions in the company.

In addition, executive bodies are responsible for implementing the company's policy aimed at preserving employees' health and providing adequate job safety. They should regularly review the implementation process and, if necessary, submit for approval by the board of directors measures aimed at improving this policy (if it requires the sanction of the board of directors).

4. The Operation of Executive Bodies

4.1. Meetings of the managerial board should be conducted in a manner that ensures its efficient operation

4.1.1. Proper discharge by executive bodies of their duties is not possible without meetings of the managerial board, which should be held at least once a week. As the managerial board is created for making decisions on current issues, any member of the managerial board should be able to call extraordinary meetings of the managerial board and propose matters that, in that member's opinion, should be discussed at such meetings.

4.1.2. The company should ensure that all members of the managerial board are given reasonable prior notice of forthcoming meetings of the managerial board.

Such notice should be delivered in advance of the appointed meeting to give members of the managerial board sufficient time to form their opinions with respect to all matters on the agenda.

4.1.3. The law does not require that members of the managerial board be informed about the agenda of the meeting. However, preliminary review of matters on the agenda will make their resolution more efficient and, consequently, may significantly increase the effectiveness of the managerial board.

Therefore, it is advisable that the agenda of the meeting of the managerial board is furnished to each member of the managerial board concurrently with notice of the meeting.

4.1.4. Members of the managerial board should be provided with complete and accurate information and given sufficient time to review it. If such information is not provided in time, and members of the managerial board are unable to review it due to time constraints, it is recommended to postpone consideration of a particular matter, even if this entails calling an extraordinary meeting.

4.1.5. In accordance with the law, minutes should be kept of all meetings of the managerial board of the company, which should be furnished to members of the board of directors, the audit commission and the company's independent audit organization (auditor).

In order to control the implementation of the financial and business plan of the company by the executive bodies, it is advisable that the minutes should also be furnished to the control and audit service of the company.

4.1.6. Delegation of voting rights by members of the managerial board of the company to other persons, including other members of the managerial board, is not allowed.

5. Remuneration of Executive Bodies

5.1. It is recommended that remuneration of the director general (manager) and members of the managerial board should correspond to their skills and reflect their actual contribution to the success of the company's operations

5.1.1. The amount of remuneration should be such that no highly qualified director general (managing organization, manager) or member of the managerial board would seek other jobs due to the level of remuneration being, in his/her/its opinion, inadequate.

5.1.2. The amount of remuneration of the director general (managing organization, manager) and members of the managerial board should depend on the final results of the company's operations, the change in the market price of the company's shares and the role that the aforementioned persons played in this. In this matter the company should allow for increase (decrease) in their remuneration, as well as payment of a part of the remuneration in the form of a bonus based on the results of the year or in the form of long-term programs of incentive payments. The human resources and remuneration committee of the board of directors should make sure that such long-term programs reflect the interests of both the director general (managing organization, manager) and members of the managerial board on the one hand, and the interests of shareholders on the other hand, as well as provide for realistic and sustainable indicators of operating results, for which the bonus is to be paid.

It is advisable to make incentive payments once every year and to make such payments always dependent on the growth of the company's share price on the securities market and (or) on the income of the company and the amount of dividends paid.

5.1.3. Inasmuch as the law provides the possibility of early termination of the director general (managing organization, manager) or a member of the managerial board, the contract with each of them should include a detailed provision on severance pay to which he/she will be entitled, except in the case of early termination for wrongful behavior.

Moreover, in order to provide for the interests of the company, it is advisable that the contract with the director general (managing organization, manager) or a member of the managerial board should set forth the obligation not to work in companies which compete with the company for a certain period of time after termination of such person's services, as well as liability for non-compliance with this requirement. In this regard, the company may assume an obligation to make certain payments to this person within said period.

In all cases, the contract with the director general (managing organization, manager) or member of the managerial board should stipulate the duty of such person (organization) not to disclose confidential and insider information for a period of time specified in the contract. It is also recommended that the contract should provide for liability of the director general (managing organization, manager) or member of the managerial board for disclosure of confidential and insider information in branch of such stipulation.

6. Liability of the Director General (Managing Organization, Manager) and Members of the Managerial Board

6.1. The director general and members of the managerial board shall be held liable for improper discharge of their duties

6.1.1. One of the most effective methods of ensuring proper discharge by the director general and members of the managerial board of their duties is statutory liability to the company for losses inflicted upon the company by their culpable actions. It is advisable for the company to actively exercise its right to claim for damages against the said persons not only to compensate losses suffered but also to encourage them to perform their duties in a proper way.

At the same time, it should be borne in mind that reasonable actions taken in good faith by the director general and members of the managerial board and proper discharge by them of their respective duties may still prove inappropriate and entail adverse material consequences for the company.

Since one of the grounds for liability of the director general or a member of the managerial board is culpability, holding liable such person or organization depends on whether such person or organization acted reasonably and in good faith, i.e. exercised the diligence and care expected from a good manager and whether such person or organization took all necessary steps to properly perform his/its functions. The director general or any member of the

managerial board is deemed to be acting reasonably and in good faith if such person or organization is not personally interested in a specific decision and has thoroughly examined all information required for making such decision; at the same time, all other concomitant circumstances should testify that such person or organization is acting exclusively in the best interests of the company.

Compliance with this approach is of paramount necessity, since otherwise the executive bodies may be afraid to display initiative and become an obstacle to successful operation of the company.

6.1.2. It is advisable that the company should not only take measures to terminate the authority of the director general or members of the managerial board liable for infliction of damages and hold them responsible for breach of their obligations towards the company, but also, acting at its own expense, provide liability insurance for the director general or members of the managerial board, so that if their actions result in losses to the company or third parties, these losses can be compensated.

Not only will implementation of such a mechanism allow the company to use civil law remedies more effectively, it will also help it enroll the services of competent specialists who otherwise would fear the risk of being sued for extensive damages.

CHAPTER 5

CORPORATE SECRETARY OF THE COMPANY

When buying shares of the company and providing it with capital, shareholders authorize the company to use of their money in accordance with the goals and objectives declared by the company when it issued its shares. In doing so, shareholders assume that the officers of the company will act in the best interests of shareholders.

This trust largely depends on the ability of shareholders to exercise their rights and have their interests safeguarded by the company. The higher the degree of transparency and efficiency of these mechanisms, and the more intelligible and predictable the actions of the company's corporate bodies and officers, the more effectively shareholders can control these actions.

Strict compliance of corporate bodies and officers with the procedures established by existing legislation, the charter and other internal documents of the company is a prerequisite for safeguarding the rights and interests of shareholders. Special importance should be attached to procedures related to preparation and conduct of the general shareholders meeting, operations of the board of directors, and storage, disclosure and dissemination of information about the company, as the overwhelming majority of violations of the rights and interests of shareholders are the direct result of the company's failure to comply with these procedures.

Strict compliance with these procedures can be assured only by a full-time officer of the company who has the required professional qualifications and who is not charged with any other functions within the company.

Existing corporate bodies and officers, including the board of directors and executive bodies, do not meet these criteria, and are not designed to carry out these tasks. Therefore, it is recommended that the company should appoint (elect) a special officer whose sole objective should be to ensure that corporate bodies and officers comply with procedural requirements safeguarding the rights and interests of the company's shareholders, namely, the secretary of the company. The procedure for appointment (election) of the secretary and his/her responsibilities should be set forth in the company's charter.

1. Functions of the Secretary of the Company

1.1. The secretary of the company should be responsible for preparing for and holding the general shareholders meeting in accordance with the existing legislation, the charter and other internal documents of the company, pursuant to the resolution to hold the general shareholders meeting

1.1.1. The secretary of the company is advised to take all necessary steps to arrange and hold the general shareholders meeting in accordance with the existing legislation, the charter and other internal documents of the company, pursuant to the resolution to hold the general shareholders meeting.

1.1.2. The law stipulates that the general shareholders meeting may be called by resolution not only of the board of directors, but also of other corporate bodies and other persons. The resolution to hold a general shareholders meeting is binding upon the secretary of the company regardless of who passed such a resolution, if the same is passed pursuant to statutory requirements and provisions of the charter of the company.

1.1.3. The secretary of the company should prepare the list of persons entitled to participate in the general shareholders meeting. If this list is compiled by an independent registrar, the secretary should be authorized to direct such registrar to prepare the list on a written order of the director general or by an internal document of the company.

1.1.4. The secretary of the company should give notice of the general shareholders meeting to all persons entitled to participate in such meeting, prepare and send (delivers) voting ballots to them, and give notice of the general shareholders meeting to all members of the board of directors, the director general (managing organization, manager), members of the managerial board, members of the audit commission of the company and the auditor of the company, and the independent audit organization (auditor) of the company.

1.1.5. The secretary of the company should prepare reference materials to be made available to the general shareholders meeting, ensure unrestricted access to such materials, and certify and issue copies of appropriate documents as directed by participants in the general shareholders meeting.

1.1.6. The secretary of the company should collect completed voting ballots received by the company and promptly forward them to the registrar of the company acting in the capacity of the ballot committee, if under the law the functions of the ballot committee are vested in a special registrar.

1.1.7. The secretary of the company should arrange registration of participants in the general shareholders meeting, keep records of the results of votes at the general shareholders meeting, and promptly send reports on the outcome of votes at the general shareholders meeting to all those on the list of persons entitled to participate in the general shareholders meeting.

1.1.8. The secretary of the company should answer the questions of participants at the general shareholders meeting with respect to the procedures used at such meetings, and take steps to resolve conflicts arising in connection with the preparation and holding of the general shareholders meeting.

1.2. The secretary of the company should be responsible for preparing for and holding meetings of the board of directors in accordance with the existing legislation, the charter and other internal documents of the company

1.2.1. Meetings of the board of directors are held by resolution of the chairman of the board of directors, and it is advisable that the secretary of the company should be responsible for handling all administrative matters pertaining to the preparation for and holding of such meetings.

1.2.2. The secretary of the company should give notice of meetings of the board of directors to all members of the board of directors and, whenever necessary, send (deliver) voting ballots to them, collect completed ballots and written opinions of members of the board of directors who did not attend the meeting, and forward them to the chairman of the board of directors.

1.2.3. During meetings of the board of directors at which members of the board of directors are present and personally vote on the matters on the agenda, the secretary of the company should ensure strict compliance with the procedures established for meetings of the board of directors. The secretary of the company should keep the minutes of meetings of the board of directors.

1.3. The secretary of the company should assist members of the board of directors in the performance of their functions

1.3.1. The secretary of the company should assist members of the board of directors in obtaining required information required. In accordance with the information policy implemented by the company, the secretary should provide access minutes of the meetings of the board of directors, its committees and the managerial board, orders issued by the director general, other documents of executive bodies of the company, minutes of the meetings of, and reports prepared by, the audit commission and the independent audit organization (auditor) of the company, and – by special resolution of the chairman of the board of directors – primary accounting documents.

1.3.2. The secretary of the company should brief newly-elected members of the board of directors on corporate procedures governing the operations of the board of directors of the company and other corporate bodies, organizational structure and officers of the company, internal company documents, resolutions of the general shareholders meeting and board of directors in effect, and provide them with other information as may be required by members of the board of directors for discharge of their duties.

1.3.3. The secretary of the company should provide members of the board of directors with interpretations of the provisions of existing legislation, the charter and other internal documents of the company that deal with procedural issues related to preparation and holding of the general shareholders meeting, meetings of the board of directors, and disclosure (provision) of information about the company.

1.4. The secretary of the company should ensure disclosure (provision) of information about the company and maintenance of corporate records

1.4.1. The secretary of the company should ensure compliance with those provisions of existing legislation, the charter and other internal documents of the company that determine procedures for maintenance and disclosure (provision) of information about the company.

1.4.2. The secretary of the company should supervise prompt disclosure by the company of information contained in securities registration prospectuses and in the company's quarterly reports, and of material facts related to the financial and business operations of the company.

1.4.3. The law provides that the company should maintain certain records and provide them to shareholders at their request. The secretary of the company should arrange maintenance of such records, ensure unrestricted access to, and issue copies of, such records. Copies of corporate records should be certified by the secretary of the company.

1.5. The secretary of the company should ensure due consideration by the company of shareholder petitions and resolution of conflicts arising out of violations of shareholder rights

1.5.1. Shareholders may direct their inquiries to the company. It is advisable that the secretary of the company is responsible for channeling inquiries for consideration by the appropriate corporate bodies and divisions in accordance with established procedures.

1.5.2. The company should seek promptly and efficiently to resolve any conflicts, in particular those related to the maintenance of the register of shareholders. For these purposes, if the register of the company is maintained by an independent registrar, the secretary of the company must have the right to directly appeal to such registrar with a request for explanations regarding shareholder complaints. It is advisable that the duty of the registrar to give relevant explanations to the secretary should be provided under the terms and conditions of the agreement between the company and the registrar.

1.6. The secretary of the company should be vested with sufficient authority to perform the secretary's functions

1.6.1. If the secretary of the company is to be able to perform efficiently the secretary's functions, the secretary should be vested with appropriate authority. It is advisable that the charter or other internal documents of the company should stipulate the duty of all corporate bodies and officers to assist the secretary of the company in discharging his/her duties.

1.6.2. With a view to ensuring efficient discharge by the secretary of the company of its duties, companies with a large number of shareholders may establish an office of the secretary of the company. The composition, number of employees, organizational structure and responsibilities of the secretary's office should be specified by the appropriate internal company documents.

1.7. The secretary of the company should notify the chairman of the board of directors of all violations of corporate procedures, compliance with which must be ensured by the secretary

The secretary of the company should notify the chairman of the board of directors of all violations of corporate procedures (acts or omissions of corporate officers and the registrar of the company, violations of procedures governing the preparation for and holding of the general

shareholders meeting, meetings of the board of directors, disclosure (provision) of information, etc.) within a reasonable time after such occurrences have been revealed.

2. Appointment and Termination of the Secretary of the Company

2.1. Appointment of the secretary of the company should be within the scope of authority of the board of directors

The main role in safeguarding the rights and interests of shareholders is ultimately played by the board of directors. Therefore, the secretary of the company should be accountable to, and controlled by, the board of directors in accordance with the terms and conditions of his/her employment contract. In this connection, it is advisable that appointment of the secretary of the company and definition of the terms and conditions of the contract made with him/her, including the amount of remuneration, are also within the authority of the board of directors.

2.2. The secretary of the company should have such knowledge as may be required for proper performance of the secretary's functions, and enjoy the trust of the shareholders and members of the board of directors

2.2.1. When appointing the secretary of the company, the board of directors should make a comprehensive assessment of the candidate's ability to perform the functions of secretary of the company, including education, work experience and professional qualities. Therefore, it is advisable that the charter of the company should contain specific eligibility criteria applicable to candidates for the position of secretary of the company, and first and foremost, with respect to such candidates' professional qualities.

2.2.2. The personal qualities of the secretary of the company should not give grounds to doubt that such person will always act in the best interests of the company; therefore, it is advisable that only a person with an impeccable reputation should be appointed to the position of secretary of the company. It should also be noted that commission by a person of economic crimes or crimes against the government, public bodies or bodies of local self-government, or the fact that such person has a record of administrative offenses, particularly in such areas as entrepreneurial operations, finance, taxes and duties, stock markets, is one of the factors that have an adverse effect on such person's reputation.

2.2.3. Issues arising in the course of the discharge by the secretary of the company of the secretary's duties require the secretary to be able to make informed decisions in a prompt fashion, which means that the secretary of the company should be able to devote sufficient time to such work. Therefore it is not advisable to permit the secretary of the company to concurrently hold other positions with the company or another legal entity.

2.2.4. If the nature of relations between the secretary and the company or its officers can give rise to a conflict of interests, there will be grounds to doubt that the secretary will act in the best interests of the company. Therefore, it is not advisable to appoint to the position of the secretary of the company a person who is an affiliated person of the company or its officers.

2.2.5. In order to make a full, comprehensive and unbiased judgment about persons seeking appointment to the position of secretary of the company, the board of directors should have sufficient information about such candidates. In this connection, each candidate for the position of secretary of the company should furnish the board of directors with personal data as specified by an internal document of the company, such information being sufficient to assess the person's compliance with applicable eligibility criteria. If any of this information subsequently changes in any way, it is recommended that the secretary of the company should immediately notify the board of directors of such changes.

CHAPTER 6

MAJOR CORPORATE ACTIONS

A number of actions of the company that may result in fundamental corporate changes, including changes in the rights of shareholders, are commonly termed “major corporate actions”. Major corporate actions should be performed with the utmost openness and transparency. When taking such actions, the company should be guided by the principles of trust and openness promoted by this Code.

Major corporate actions include, first and foremost, reorganization of the company and acquisition of 30 percent or more of the outstanding shares of the company (“takeover”) and actions that have a significant impact on the capital structure and financial situation of the company and, consequently, on the position of shareholders. Other major corporate actions are execution of major and interested-party transactions, increase or decrease of the company’s charter capital, changes in the charter of the company and a number of other matters whose resolution is critical for the company.

Considering the importance of major corporate actions, the company should enable shareholders to influence effectively their course and outcome. This objective is achieved through implementation of transparent and fair procedures based upon proper disclosure of information about the consequences that such actions may have on the company.

1. Major Transactions and Other Transactions entered into in Accordance with the Procedure Provided for Major Transactions

1.1. Procedures for entering into major transactions should apply to transactions that may have a significant effect on the company, even though they do not fall under the statutory definition of major transactions

The definition of major transactions is provided by existing legislation. A comparison of the book value or acquisition price of the property involved in the transaction against the total book value of the company’s assets is used to classify the transaction as major. At the same time, the law stipulates that the charter of a company may provide that the procedures for entering into major transactions may apply to other transactions. In this connection it is recommended that the charter of the company should envisage the possibility of applying procedures for execution of major transactions to other transactions, provided that the latter may have a significant effect on the company or this is required by the nature of the company's operations, except for transactions executed in the ordinary course of business operations of the company. For example, it is advisable that procedures for approval of major transactions by the general shareholders meeting should apply to transactions that involve the sale of a block of shares of a subsidiary resulting in the company losing its majority stake in that subsidiary’s charter capital. When making a decision to include into the charter of the company provisions stipulating that procedures for execution of major transactions should apply to other significant transactions, it is necessary to ensure that there is reasonable balance between efficient management of the company’s daily operations by its executive bodies on the one hand, and efficient supervision of the operations of executive bodies by the board of directors and general shareholders meeting on the other.

It is advisable that joint stock companies with considerable assets apply procedures for entering into major transactions to transactions that involve property the value of which exceeds a certain absolute limit. In addition, it is advisable to apply the procedures for entering into major transactions to transactions with certain types of company assets that have special significance for its business operations.

If there is any uncertainty as to whether a transaction qualifies as a major transaction it is advisable that it should be executed in accordance with the procedure used for entering into major transactions.

1.2. It is advisable that major transactions be approved prior to their consummation

1.2.1. Pursuant to the existing legislation, lack of approval of a major transaction makes it contestable, which gives rise to the risk of its invalidation and creates instability in the relations between the company and its business partners. Therefore, despite the fact that the law does not exclude the possibility of approval of major transactions *post factum*, it is recommended that all such transactions be approved by the relevant body in advance.

1.3. It is advisable that major transactions be executed with the participation of independent assessors

1.3.1. Current law does not require the use of independent assessors to determine the market value of property involved in major transactions. Determination of the price of property disposed of or acquired in a major transaction is left to the board of directors of the company. However, it is advisable that the board of directors employ the services of an independent assessor to determine the value of such property.

2. Acquisition of thirty percent or more of outstanding ordinary shares (“takeover”)

2.1. The board of directors should communicate to shareholders its opinion with respect to a proposed takeover

2.1.1. Pursuant to existing legislation, any person that intends, whether independently or together with its affiliated persons, to acquire 30 percent or more of the outstanding common stock of a company with over 1000 shareholders holding common shares, or each 5 percent in excess of 30 per cent of the outstanding common stock of such company, should notify the company of this intent in writing. This notice should be given no later than 30 days prior to the proposed date of acquisition. If such notice is received, it is recommended that the board of directors should inform shareholders of the possible consequences of such acquisition of the company’s shares.

2.1.2. The opinion of the board of directors with respect to the possible takeover should be communicated to shareholders in accordance with the procedure customarily used for giving notice of the general shareholders meeting. This should occur prior to the proposed acquisition in

order to enable shareholders to make informed decisions about whether or not they are willing to sell their shares or take some other course of action. In addition, it is advisable that the board of directors invite an independent assessor to determine the current market value of the company's shares and how it could be affected by the takeover.

2.2. It is not recommended to take anti-takeover actions that are contrary to the interests of shareholders or may have an adverse material effect on the interests of the company and its shareholders

Generally speaking, corporate takeovers can be characterized as a means of increasing the efficiency of corporate conduct, which may be in the interests of shareholders. On the other hand, the interests of shareholders may be impaired as a result of a takeover. For instance, certain shareholders may lose their ability to influence the corporate decision-making process, while the liquidity and market value of shares may decline. Therefore, the use by the company of anti-takeover devices may be dictated by the desire to protect the interests of shareholders.

With regard to this matter, the company should refrain from actions that are aimed at protecting the interests of executive bodies (members of such bodies) and members of the board of directors, and which may result in weakening the position of shareholders. In any event, pending the expiration of the acquisition period, the board of directors should refrain from issuing additional shares, convertible shares or securities that otherwise entitle their holders to purchase shares of the company, even if such issuance is authorized by the charter of the company.

2.3. It is not recommended to relieve the entity taking over the company of the responsibility to offer to buy out shareholders' common stock (issuer's shares convertible into common stock)

Pursuant to existing legislation, the entity taking over the company may be relieved of its responsibility to offer to buy out shareholders' common stock (issuer's shares convertible into common stock) by resolution of the general shareholders meeting or by the charter of the company.

The reasons that may induce the general shareholders meeting to relieve the new owner of the company of its duty to buy out the remaining shares held by shareholders are not specified by law. One of the practical arguments in favor of such a decision is, for instance, the desire to attract a major investor by relieving it of the additional financial burden. However, this action may significantly impair the interests of minority shareholders. Therefore, in the majority of cases, relieving the entity taking over the company of the duty to offer to buy out the shares held by shareholders is undesirable.

2.4. The offer to buy out shares during a takeover may be made through the company

The law provides that the entity taking over the company should offer to buy out from all shareholders their common and convertible stock. Under the law, such an offer should be made

to all shareholders of the company in writing; however, the law prescribes no specific procedures. Therefore, it is advisable to make such an offer through the company, which should be stipulated in its charter. The secretary of the company should ensure that the offer is forwarded to all shareholders of the company at the expense of the company, using the procedures established for giving notice of the general shareholders meeting.

3. Reorganization of the Company

3.1. The board of directors should actively participate in defining the terms and conditions of the company's reorganization

3.1.1. The law provides that the issue of reorganization of the company should be submitted for consideration by the general shareholders meeting at the initiative of the board of directors. The decision of the board of directors to submit this matter for consideration by the general shareholders meeting should be made only if it concludes that reorganization is necessary, and if the terms and conditions negotiated by the executive bodies of the legal entities involved in the proposed reorganization are found to be acceptable. It is recommended that before passing a resolution on reorganization individual members of the board of directors should participate in negotiations conducted by executive bodies during the course of these negotiations. The board of directors should establish a special committee for interaction with the executive bodies on this matter.

The board of directors should approve the final drafts of all relevant documents and submit the issue of reorganization for consideration by the general shareholders meeting, concurrently communicating to such meeting its position on the issue.

3.1.2. Before the board of directors resolves to submit the issue of reorganization for consideration by the general shareholders meeting, it should be furnished with appropriate information and reference materials related to the proposed reorganization. It is recommended that the list of such information and materials should include the following documents:

- (1) draft agreement on merger (accession) or draft resolution on division (separation);
- (2) draft constituent documents of the legal entities to be established as a result of merger, division (separation) or transformation, or constituent documents of the entity to which the company is acceding;
- (3) annual reports and balance sheets of all entities participating in the merger (accession) for the last three fiscal years;
- (4) quarterly reports prepared not later than six months before the date of the meeting at which the issue of reorganization is to be considered, if more than six months have passed since the end of the last fiscal year;
- (5) the draft transfer certificate and separation balances; and

(6) the rationale for the reorganization.

3.2. *It is recommended that an independent assessor be used for determination of the conversion value of shares after the reorganization*

The law does not require that an independent assessor be employed to determine the conversion value of shares. However, this should be done in order to ensure that this matter is resolved in an objective and reasonable manner.

3.3. *It is recommended that the notice of a joint general shareholders meeting should be given by each company participating in the merger (accession) in accordance with the procedure established for such company*

The notice of the joint general shareholders meeting should be given by each company participating in the merger (accession) in accordance with the procedure established for that company. The boards of directors of the companies being reorganized should hold a joint meeting in order to determine the date, place and time of the joint general shareholders meeting or, if the vote is taken by ballot, the date by which completed ballots should be submitted and the mailing address to which they should be mailed. It is important to ensure that resolutions passed by such a joint meeting of the boards of directors take into account the interests of shareholders of all companies participating in the merger (accession).

3.4. *It is recommended that the voting procedures at the joint general shareholders meeting of legal entities being reorganized should be consistent with the voting procedures at the general shareholders meeting of the newly-established legal entity*

The law does not provide for the voting procedures at the joint general shareholders meeting of the legal entities participating in a merger or accession, permitting them to specify these procedures in the merger (accession) agreement. When determining the voting procedures, it is advisable to use the procedures required by law for voting at the general shareholders meeting of a newly-established legal entity. In addition, the merger (accession) agreement should specify the persons who will perform the required functions at the meeting general. It is advisable to select for these purposes those persons who perform corresponding functions in the legal entities participating in the merger (accession). Finally, the aforementioned agreement should specify the persons who will count the voting results.

4. Liquidation of the Company

4.1. *It is advisable that eligibility criteria for the liquidator and members of the liquidation committee should be consistent with eligibility criteria applicable to executive bodies of the company*

The law provides that in the event of liquidation the company should appoint a liquidator and liquidation committee, which will act in the capacity of the executive bodies of the company for the duration of the liquidation process. The eligibility criteria for the liquidator and members

of the liquidation committee should be similar to those applicable to the executive bodies of the company.

CHAPTER 7

DISCLOSURE OF INFORMATION ABOUT A COMPANY

The disclosure of information is vitally important for evaluation of a company's progress by its shareholders and potential investors. Such disclosure helps companies to attract investment and to remain trustworthy. Insufficient or inaccurate information about a company can hinder the successful development of its business.

Shareholders and investors require regular access to reliable information, in particular to control the management bodies of the company and make informed decisions regarding the evaluation of its activities. On the other hand, it is very important to make sure that the information disclosure requirements do not act against the company's interests and that no confidential information is disclosed, since it may harm the company. However, all restrictions related to disclosure must be subject to strict regulations.

The goal of disclosure is to provide information to all interested parties to enable them to make informed decisions regarding participation in the company or actions that can affect the company's financial and business transactions.

The main principles of disclosure of information include its availability on a regular and timely basis, accessibility to most shareholders and other interested parties, completeness and reliability, and a reasonable balance between the company's transparency and its commercial interests.

Information disclosed by a company must be well balanced. Companies should not under any circumstances avoid disclosing negative information about themselves, if such information is essential for shareholders and potential investors.

Disclosed information should be neutral, i.e. the satisfaction of the interests of certain groups of recipients in preference to other groups is unacceptable. Information is not neutral when its content or the form of its presentation is chosen in order to achieve certain results or consequences.

1. Company's Information Policy

1.1. A company's information policy should guarantee unhindered and low-cost access to information about the company

1.1.1. A company's executive bodies are responsible for disclosure. Performing their duties pertinent to disclosure, executive bodies must follow the disclosure rules set forth by the company.

It is advisable that an internal company document setting forth rules of and approaches to disclosure (Regulation on Information Policy) be approved by the board of directors. It is expedient that this document contain a list of items subject to disclosure (in addition to those

items requiring disclosure by law) as well as rules for their disclosure, including the mass media that should be used for disclosure and the regularity of disclosure.

Moreover, the Regulation on Information Policy should state how often company officers intend to speak in public or give interviews to the mass media, how often conferences or other meetings with shareholders and potential investors are held, and the procedures for answering questions from shareholders.

1.1.2. Selection of information distribution channels by a company is of great importance when obtaining information about the company on a timely basis. The information distribution channels should provide users with unhindered and low-cost access for persons interested in the disclosed information.

In addition to the methods of disclosure prescribed by law, the company's Regulation on Information Policy should provide for obligations of executive bodies of the company to hold regular meetings with investors and shareholders of the company, press conferences, publish information about the company in mass media, brochures and booklets, and disclose information about the company through the company's website, if the company has such capabilities.

Specifically, it is recommended that the company should publish on its website the text of its charter and amendments thereto, quarterly reports, offering circulars, audit reports, information on significant facts as well as information with respect to general shareholders meetings of the company and important resolutions of the board of directors. It is advisable that the list of information to be disclosed on the company website be included in the company's Regulation on Information Policy. It is also advisable that the company's website contain information on the company's development strategy.

The company's financial statements are the principal documents from which shareholders and potential investors can obtain information about the company's financial position. Thus it is advisable that companies with more than 10 000 shareholders should publish their financial statements in at least two periodicals with a circulation of at least 50 000 copies each, such periodicals being accessible to a majority of shareholders.

2. Forms of Disclosure

2.1. *It is recommended that prospectuses include all significant information about the company*

2.1.1. Although the law contains requirements as to the content of a prospectus, the company should seek to disclose all information that may be of importance for its evaluation by shareholders and potential investors. Therefore, it is advisable to include in the prospectus certain information in addition to that prescribed by law.

2.1.2. In accordance with the statutory requirements, the company should include in its prospectus information about members of its board of directors, the director general (managing organization, manager) and members of the managerial board.

At the same time, information about other company officers may also be of interest to shareholders and potential investors. Therefore, in addition to information about members of the board of directors, the director general (managing organization, manager) and members of the managerial board, it is advisable to disclose similar information about other officers, including the secretary of the company, deputy directors general and chief accountant.

It is advisable that a company's Regulation on Information Policy include a list of the officers, information on whom is subject to disclosure.

2.1.3. One of the aspects that is of a paramount importance for shareholders is timely receipt of dividends. With regard to this matter, it is essential for shareholders to know answers to the following questions: how the company determines the portion of the profits to be paid out as dividends, on what conditions dividends are paid, what is the minimum amount of dividends for various categories (classes) of shares, what are the criteria and basic rules used by the board of directors when making decisions on payment of dividends and distribution of net profits and determining their amount, and what is the procedure for payment of dividends, including time, place and form of payment.

This information should be addressed in the company's Regulation on Dividend Policy. It is advisable that companies also describe their dividend policies in their offering prospectus.

2.1.4. Under the law a company must disclose information about shareholders that own 20 percent or more of the shares of the company. However, this may not be sufficient to forming an opinion about actual holdings in the company; therefore, the company should disclose information on shareholders that own 5 percent or more of the shares in the company. Disclosure about direct holdings should include information on indirect holdings available to the company.

In order to influence the company's activities, groups of shareholders whose individual shareholdings are relatively small sometimes conclude voting agreements. It is advisable that the company should take reasonable measures to receive information about the existence of such agreements and disclose such information if it has it.

2.1.5. Information on how the company's assets are used and who its business partners are is of great importance to the company's shareholders and other interested parties.

Therefore, it is advisable to disclose information about the company's transactions and its officials in accordance with the charter, and about transactions between the company and entities in which the company's senior executives directly or indirectly own 20 percent or more of the shares or which are otherwise subject to the influence of such executives.

Additionally, transactions between the company and entities that have direct or indirect control over the company, are controlled by the company, or are under common control, as well as transactions between the company and individuals or their relatives that are affiliates of the company, are of interest to shareholders. It is recommended that information about such transactions should also be disclosed.

The company's Regulation on Information Policy may require the disclosure of information on other transactions that may have an effect on the shareholders' interests.

Additionally, it is advisable to disclose information on all transactions with property of the company whose value is equal to or in excess of 2 percent of non-current assets of the company and which may affect the market price of the company's shares.

2.1.6. With regard to information about the company's securities offered for sale, both shareholders and potential investors are interested in obtaining information about the reasons for issuance of new shares and the persons purchasing new shares, including those who intend to purchase a large percentage of shares. It is recommended that such information should be disclosed. Furthermore, it is advisable to state whether senior executives of the company will purchase shares offered.

2.1.7. Information on the financial performance of the company is of the utmost importance both for shareholders and potential investors. Therefore, companies are encouraged to disclose more information on their financial position than that which is mandatory for disclosure in accordance with the law. For example, it is advisable to disclose not only the net profit of a company as a whole but also the net operating profit, the net profit per share, and the net operating profit per share.

Additionally, it is advisable to present such indicators as debt-to-equity ratio; estimates of change in asset composition and structure over the last three years; estimates of current and prospective liquidity of assets; profitability analysis; and the percentage share of export income in the total annual income of the company.

Executive bodies have the most detailed information on the company's financial position. Therefore, it is advisable to present executive bodies' assessment of the factors that influenced the company's financial position and the results of its financial operations over the last year and the trends that will affect the company's financial position in the future.

2.2. It is recommended that the quarterly report for the fourth quarter should disclose additional information

The company's quarterly report must contain data about its operations for the reporting quarter as required by law.

The law requires that the annual financial statements for a closed fiscal year be presented in the quarterly report for the fourth quarter of the year. Therefore, it is advisable that the quarterly report for the fourth quarter include data about the company's operations for the entire previous fiscal year, rather than for the fourth quarter only.

It is also recommended that the quarterly report for the fourth quarter should contain a report on the company's compliance with the recommendations of the Code, indicating whether the company follows all the recommendations or only some of them.

2.3. *The company should promptly disclose information about all factors that may be material to shareholders and investors*

The company's Regulations on Information Policy should provide a more detailed list of material facts to be disclosed. In particular, it is recommended that this list should include the following:

- (1) any change of the company's name;
- (2) decisions on increasing (decreasing) the charter capital;
- (3) acquisition by the company of its own shares, unless this is connected with reduction of the charter capital of the company (which should include information about the sources of funds used to acquire such shares, quantity of shares acquired, acquisition price, and the reason for, and the purpose of, such acquisition);
- (4) any increase (decrease) in the company's share price of at least five percent;
- (5) transactions entered into by the company as specified in par. 2.1.5. of this Chapter;
- (6) discontinuation of manufacturing/performance/provision of goods/works/services whose sales accounted for at least ten percent of all sale revenues in the fiscal year preceding the reporting year;
- (7) a change in the company's priority areas of operation;
- (8) amendments to the company's charter concerning issuance of preferred stock of a category different from the category of shares issued previously; and
- (9) a change in the company's auditor, registrar or depository.

3. *Provision of Information to Shareholders*

3.1. *It is recommended that the secretary of company provide shareholders with access to information about the company*

3.1.1. Provision of access to information that the company must keep and furnish to its shareholders pursuant to the law should be entrusted to the secretary of the company.

In addition to the resolution part which summarizes the overall results of relevant meetings, it is recommended that the minutes of meetings of the board of directors and managerial board relating to such information should include the results of voting by each member of the board of directors or managerial board. It is also recommended that the minutes

should be accompanied by copies of documents that were presented to the meetings, except when such documents are confidential.

It is advisable that the secretary of the company should ensure that requested documents and/or their copies are provided within five business days of the relevant request being received by the company.

3.1.2. It is advisable that the company gives its shareholders an opportunity to review the documents that the company should furnish to them not only at the location of the executive body of the company, but also at an alternative location specified by the charter of the company. Such documents should be made available for review upon presentation to a managing officer or secretary of the company of an appropriate request made in writing in an optional form. Such request should specify the last name, first name and patronymic of the individual shareholder's name and location of the legal entity, quantity and category (class) of the shares held by such individual/entity, and the title of the requested document.

3.1.3. Before documents or their copies are provided, the secretary must verify the fact of the shareholder actually holding shares in the company.

In this respect, a shareholding should be confirmed in accordance with the recommendations set forth in Paragraph 1.5 of Chapter 2 "General Shareholders Meeting" of this Code.

3.2. *It is recommended that during preparations for a general shareholders meeting and in the course of such a meeting shareholders be provided with all significant information on each item of the agenda*

3.2.1. To be able to make informed decisions, taking into account the interests of both individual shareholders and the company as a whole, the shareholders need to have complete information on each question of the agenda of the general shareholders meeting.

Therefore, it is advisable that the Regulation on Information Policy of the company should contain a list of information, documents and materials to be furnished to the shareholders to enable them to make decisions regarding issues brought up at a general shareholders meeting.

In particular, this list should include:

- (1) the company's annual statement;
- (2) balance sheet and profit and loss statement;
- (3) recommendations of the board of directors regarding distribution of company profits, including recommendations on payment of dividends, and reasons for each recommendation;
- (4) opinion of the company's audit committee;

(5) opinion of the company's independent audit organization (auditor) based on its most recent annual audit of the company's business and financial operations;

(6) information on candidates for the company's board of directors and audit committee, information on candidates for the company's managerial board and a candidate for the position of director general, information on the managing organization (manager), if creation of the company's executive bodies is within the authority of the general shareholders meeting, as well as draft agreements with such persons; and

(7) information on candidates for the position of the company's independent audit organization (auditor) and the draft contract with such auditor.

If the company's reorganization is on the agenda of an annual general shareholders meeting, the following documents should be provided to the shareholders, in addition to the documents specified by law:

(1) rationale for the company's reorganization;

(2) opinion of a professional securities market expert;

(3) annual statements and annual balance sheets of all entities taking part in the reorganization for the last three fiscal years; and

(4) quarterly reports prepared not later than six months prior to the date of the meeting which will consider the matter of reorganization, if more than six months have passed since the end of the last fiscal year.

If the agenda of an annual general shareholders meeting includes issuance of new shares, the shareholders should be provided with the list of assets that can be used for the redemption of the securities, if the resolution on issuance provides for non-cash payment, and an estimate report with regard to such assets.

3.3. It is recommended that the annual report to the shareholders of the company contain the information necessary to enable shareholders to evaluate the results of the company's operations for the year

3.3.1. The annual report must primarily cover general matters related to the company's operations. These matters should include:

(1) the company's position in the industry;

(2) attainment of the company's strategic objectives;

(3) annual results: actual vs. planned;

- (4) prospects for the company's development (sales, productivity, market share, income generation, profitability, debt/equity ratio);
- (5) major risk factors;
- (6) relations with competitors; and
- (7) review of the most significant transactions of the company during the last year.

3.3.2. Certain information about the securities of the company is of critical importance for shareholders, including information about issues of shares and capital movement during the year (changes in the list of shareholders holding at least five percent of the company's shares); acquisition by the company of its own shares, unless connected with reduction of the charter capital of the company; dividend payments or, if no dividends were paid, the reasons for the failure to pay dividends.

This section of the annual report should also contain information about the securities held by members of the board of directors, members of the managerial board, and the company's director general.

3.3.3. It is advisable that the company should disclose information about members of the board of directors, the director general (managing organization, manager) and members of the managerial board, as well as about other officers of the company listed in the Regulation on Information Policy of the company, including brief CVs, amount of remuneration payable to them and criteria for its determination, ownership of company shares, information about transactions between such persons and the company and changes in the composition of the board of directors.

In addition, it is recommended that the annual report should specify, with respect to each member of the board of directors, his or her age, profession, principal place of work, citizenship, and other positions held by him or her. The annual report should also state when the board member was first appointed and when such member was appointed to the current position. It is advisable to disclose information on claims filed against members of the board of directors, members of the managerial board and the director general of the company.

3.3.4. The most important information that any shareholder or potential investor should be able to obtain from the annual report is information about the company's financial position and, in particular, about transactions with interested parties of the company. Therefore, it is also advisable that principal financial indicators should be included in the company's annual report submitted to shareholders as well as the auditor's findings.

3.3.5. It is recommended that the annual report should cover matters related to health care, vocational training, workplace safety and environmental protection.

3.3.6. Information about whether the company whose shares they hold follows best practice standards is vital for shareholders. In this connection, one of the sections of the annual report of the company should be dedicated to the company's compliance with the recommendations of this Code, indicating whether the company follows all such recommendations or only some of them. In the latter case, the annual report should explain the reasons for the failure to follow certain recommendations. It is also necessary to disclose corporate conflicts associated with improper implementation by the company of those recommendations of this Code that the company has declared binding upon itself in one form or another.

3.3.7. It is recommended that the annual report should incorporate a statement by the chairman of the board of directors and a statement prepared by the director general evaluating the company's performance for the year.

3.3.8. It is recommended that the annual report should be signed by the company's director general, its financial and accounting managers, and members of the board of directors.

If any of the aforesaid persons does not agree with the data included in the company's annual report, they must make every effort to correct inaccuracies in the company's annual report, failing which the person who does not agree with the data in the annual report should set out in writing their objections (dissenting opinion). Such dissenting opinions should be presented to the shareholders along with the annual report.

4. Information that constitutes a Trade or Professional Secrets. Insider Information

4.1. Information that constitutes trade or professional secrets should be protected

4.1.1. According to the law, information constitutes a trade or professional secret when: it has actual or potential commercial value, it is not known to third parties, it is not accessible on a regular basis, and the owner of the information seeks to protect its confidentiality.

Information that constitutes trade or professional secrets, the terms on which such information may be accessed, as well as the possibility of its use should be determined by the company taking into account the necessity of maintaining the balance between the company's openness and the need to protect its interests.

Therefore, it is advisable for the board of directors of the company to approve an internal company document on Information that Constitutes Trade or Professional Secrets, specifying the list of items that constitute trade or professional secrets (hereinafter referred to as "confidential information"), criteria for considering information confidential and establishing the access procedure. This document may be incorporated into the company's Regulation on Information Policy.

4.1.2. It is advisable that agreements with the officers and employees of the company include provisions on non-disclosure of confidential information.

4.2. *The company should exercise control over the use of insider information*

4.2.1. Insider information is defined as significant information about a company's operations, shares and other securities of the company and transactions therewith, which is not available to the public and disclosure of which may substantially affect the market value of shares and other securities of the company.

Illegal use of such information may inflict material damage on shareholders and harm the financial position of the company and its business reputation as well as inflict damages on the Russian stock market in general.

It is recommended that the control and audit service of the company monitor members of the board of directors, executive bodies and other employees of the company for compliance with applicable provisions of the existing legislation and special requirements imposed by internal documents of the company to prevent emergence of conflicts of interest and minimize misuse during the use of insider information among the company's personnel and divisions.

It is advisable that the board of directors approve a document regulating the use of insider information. This document may be incorporated into the company's Regulation on Information Policy.

4.2.2. It is advisable that agreements with the officers and employees of the company include provisions on non-disclosure of insider information.

CHAPTER 8 SUPERVISION OF FINANCIAL AND BUSINESS OPERATIONS OF THE COMPANY

The system of supervision of financial and business operations implemented by the company is designed to foster the trust of investors in the company and its governing bodies. The chief purpose of this supervision is to ensure adequate protection of shareholders' capital investments and the assets of the company.

This may be achieved by attainment of the following:

- (1) approval and making arrangements for implementation of the financial and business plan;
- (2) establishment of and ensuring compliance with efficient internal control procedures;
- (3) implementation in the company of an efficient and transparent management system, including preventing and curing errors and abuses on the part of executive bodies and officers of the company;
- (4) prevention, detection and minimization of financial and operational risks; and
- (5) ensuring accuracy of the financial information used or disclosed by the company.

It is recommended that supervision of the financial and business operations of the company should be carried out by the board of directors of the company and its audit committee, the audit commission of the company, the control and audit service of the company as well as an independent audit organization (auditor) of the company.

1. System for Supervision of Financial and Business Operations of the Company

No system of supervision of the financial and business operations of the company can provide failsafe guarantees that it will prevent events resulting in unforeseen losses. At the same time, establishment of an efficient internal control system reduces the probability of such losses.

1.1 The company should provide for the establishment and efficient functioning of a system for day-to-day supervision of financial and business operations

1.1.1. The law provides that in order to ensure efficient supervision of financial and business operations of the company the company should create a special body – the audit commission, and enroll the services of an independent audit organization (auditor).

However, truly efficient control requires ongoing internal supervision to ensure compliance with the established procedures for the conduct of all business operations of the company.

For the purposes of this Code, internal control is understood as control over the conduct of the company's financial and business operations (including the implementation of its financial and business plan) by the company's divisions and bodies. Internal control procedures include procedures for the conduct of operations envisaged by the financial and business plan, as well as procedures for detection and conduct of non-standard operations. The internal control procedures also include risk management.

Internal controls enable the company to promptly identify, prevent and mitigate financial and operating risks and possible abuse by the company's officers; in this way, properly organized internal controls reduce the company's expenses and facilitate efficient management of its resources.

In order to implement an efficient internal control system, it is advisable that the company should establish a control and audit service, a structural subdivision of the company responsible for ongoing internal supervision and acting independently of the executive bodies of the company. Procedures for the appointment of employees of the control and audit service should, where possible, be stipulated by the charter of the company. The structure and composition of the control and audit service, as well as the eligibility criteria applicable to its personnel, should be provided by an internal document of the company approved by the board of directors.

1.1.2. The system of supervision of the financial and business operations of the company calls for accurate performance of a financial and business plan approved by the board of directors of the company. The board of directors should play an important role in supervision of the financial and business operations of the company.

It is recommended that the company's board of directors create a special board committee to exercise efficient direct control over financial and business activity and, most of all, over performance of the financial and business plan – the audit committee, responsible for this particular aspect of the board of directors' responsibilities.

The company's control and audit service should be monitored in its activities by the board directly or through the audit committee.

1.2. It is recommended that the competencies of bodies and persons that comprise the system for supervision of financial and business operations of the company and those that are responsible for the development, approval, use and evaluation of the efficiency of the internal control systems, should be separated

With a view to ensure efficient operation of internal control procedures and the company's risk management system, it is advisable that the duties related to the use and evaluation of such procedures in terms of effectiveness should be separated. It is recommended

that the internal control procedures should be developed by the executive bodies jointly with the control and audit service of the company and the audit committee.

Approval of such procedures should fall within the remit of the board of directors of the company.

The use of the internal control procedures should be the responsibility of the executive bodies.

It is recommended that duties related to the evaluation of the efficiency and drafting proposals for improvement of the internal control procedures implemented in the company should be assigned to the audit committee of the board of directors of the company.

1.3. The composition of the audit committee, audit commission and control and audit service of the company should allow for efficient supervision of the financial and business operations of the company

1.3.1. In order to provide due objectivity, the audit committee should include only independent directors. If, for objective reasons, this is impossible, the audit committee should be headed by an independent director and its members should be independent and non-executive directors.

1.3.2. The charter of the company should set forth special professional qualifications for members of the audit committee, audit commission and control and audit service of the company. In particular, members of the audit committee should possess special knowledge of the basics of accounting and financial reporting.

It is recommended that the head of the control and audit service of the company and at least two thirds of its personnel, with the exception of technical personnel, should have a higher economic (financial) or legal education. In addition, it is advisable that the head of the control and audit service should have at least five years of work experience consistent with his/her special training.

1.3.3. The personal qualities of members of the audit committee, audit commission and employees of the audit and control service should not give rise to any doubts that they may act not in the best interests of the company; therefore, it is recommended that only persons with impeccable reputations be appointed to these positions. Commission by a person of economic crimes or crimes against the government, public bodies or bodies of local self-government, or the fact that such person has a record of administrative offenses, particularly in such areas as entrepreneurial operations, finance, taxes and duties, stock markets, can be one of the factors which have an adverse effect on such person's reputation.

1.3.4. The fact that members of the audit committee, audit commission and employees of the audit and control service have a conflict of interests caused by their participation in other legal entities, membership in the governing bodies of, or holding official positions with, other legal entities may constitute grounds for doubt that they will at all times act in the best interests

of the company. Therefore, it is not advisable that persons holding official positions with the company or a legal entity competing with the company should be members of the audit committee, audit commission or employees of the audit and control service.

1.3.5. Employees of the control and audit service appointed to carry out internal control should be independent of the executive bodies of the company. Otherwise they will be exposed to pressure from executive bodies and not be able to carry out effective control over business operations, including checking the expediency of non-standard operations and carrying out further control over standard business operations.

To ensure the control and audit service's independence from the executive bodies of the company in carrying out control over their activity, labor contracts with the head of the control and audit service should be concluded on behalf of the company by the chairman of the board of directors. Labor contracts with employees of the control and audit service should be concluded by company directors, preferably those heading the human resources and remuneration committee or the audit committee.

1.4. The audit committee should hold meetings at least once a month and prepare its recommendations for the board of directors of the company

The head of the control and audit service as well as other officials of the company and representatives of the company's independent organization (auditor) shall report directly to the audit committee meetings with respect to performance of the financial and business plan, compliance with internal control procedures in the company, risk management and non-standard operations. Audit committee meetings should be held on a regular basis as required, but not less than once a month (ordinary meetings).

If a meeting of the board of directors considers matters relating to activities of the audit committee, a meeting of the audit committee should take place before the meeting of the company's board of directors. The audit committee should advise the board of directors about any issues to be resolved by the board.

2. Control over Business Operations

2.1. Financial and business operations of the company, being carried out pursuant to the financial and business plan, should be verified further

2.1.1. The company should envisage that, within a reasonable time after completion of each financial and business operation, the control and audit service of the company shall be presented with the documents and materials necessary reasonably and unambiguously conclude that the financial and business operations undertaken conform to the financial and business plan of the company and the procedure set forth for such operations by the company. The period of time for presentation of such documents and materials to the control and audit service, as well as the responsibility of officials and employees of the company for failure to present same within such period, should be stipulated by the appropriate internal documents of the company.

2.1.2. The control and audit service should check whether presented documents and materials correspond to internal control procedures approved by the company, including whether the consent of the company's heads of departments was obtained if such consent was required in accordance with stipulated procedures, and whether funds were assigned for performance of a given business operation in the financial and business plan of the company.

Information on errors and violations discovered during business operations should be accumulated and reported to the audit committee by the control and audit service.

2.2. *Non-standard operations require preliminary approval by the company's board of directors*

2.2.1 The financial and business plan is the basic document regulating the financial and business activity of the company. All business operations should be carried out as far as possible in accordance with this plan. At the same time, in carrying out the financial and business activity of the company, it may be necessary to carry out operations evidently falling outside the financial and business plan of the company (non-standard operations).

In this connection, the financial and business plan of the company should expressly stipulate what operations may be carried out within a certain field of the company's activity and what funds are assigned for the various areas of the company's activity. Thus, operations that are not set forth in the financial and business plan are non-standard operations.

2.2.2. The company's charter should stipulate, and internal documents of the company should set forth, a special procedure for carrying out, non-standard operations falling outside the scope of the financial and business plan.

Since the operations falling outside the framework of the financial and business plan are contrary to the main document on the company's financial and business activity, the procedure for review and approval of such operations shall be more strict as compared with the procedure for review and approval of operations envisaged by the financial and business plan.

First of all, the following should be determined: why such an operation was not stipulated in the financial and business plan, to what degree it is necessary to carry it out, and whether it is possible to delay the same. All arguments should be evaluated by persons who are disinterested in such non-standard operation and not influenced by the company's executive bodies. At the same time, such persons should be duly qualified to evaluate whether it is worthwhile to carry out such operation. Such persons should be employees of the company's control and audit service.

In this connection, non-standard operations should be subject to preliminary evaluation by the control and audit service of the company. After analysis of each nonstandard operation, the control and audit service should advise the audit committee and the board of directors whether it is expedient for them to approve such operation. If need be, the company's control and audit service may seek advice from the corporate executive bodies.

2.2.3. It is recommended that the internal documents of the company envisage the right of the audit committee and board of directors to take a decision on carrying out any non-standard operation and, if required, to introduce relevant amendments into the financial and business plan. The board of directors should also be vested with a right to veto the execution by the executive bodies of the company of any non-standard operation, provided such veto is justified.

2.3. *It is recommended that the board of directors be provided with full information on the results of the financial and business activity of the company*

2.3.1. All members of the audit committee should have unlimited access to any documents and information of the company. Such access is necessary for the audit committee to perform its functions.

The audit committee may be substantially assisted in obtaining information by the control and audit service, which carries out day-to-day control over the fulfillment of the financial and business plan. The information required may be provided either by employees of the control and audit service or by other officials and employees of the company as well as by the independent audit organization (auditor) of the company.

For this purpose the head of the control and audit service should, at each ordinary (and extraordinary, where necessary) meeting of the audit committee, report on the performance of the financial and business plan and deviations from it. Moreover, to audit committee meetings should be invited representatives of the independent audit organization (auditor) and other officials of the company whose presence is necessary for the committee to discharge its duties.

2.3.2. To provide the board of directors of the company with full information on violations in carrying out business operations, the audit committee should regularly present its opinions on errors and violations, revealed over the relevant period of company activity, for consideration by meetings of the board of directors. Opinions on errors and violations discovered should also be presented to the audit commission of the company. Such opinions should contain comprehensive information on such errors and violations, including information on persons liable for them as well as about conditions that facilitated their being committed. Opinions of the audit committee of the company may contain recommendations on methods to prevent such errors and violations in the future.

Opinions of the audit committee of the company should also contain information relating to analysis of commercial and other risks associated with particular transactions and operations of the company, as well as assessments of the adequacy of company's corporate governance and risk management systems. The audit committee is recommended to ensure stable risk management.

3. Organization of Activity of the Audit Commission

3.1. The procedures for the audit commission of the company should provide for efficiency of the mechanism of supervision of the financial and business operations of the company

3.1.1. In accordance with the law, annual and extraordinary audits are among the basic mechanisms of supervision of the financial and business operations of a company. An extraordinary audit may include the audit of a certain business operation of the company or business operations over a certain period of time.

All organizational matters of audits and persons who are directly responsible for carrying them out should be determined in advance at meetings of the audit commission of the company.

3.1.2. The law does not stipulate the quorum required for making decisions at meetings of the audit commission of the company. At the same time, the quorum for holding meetings of the audit commission should be not less than half the elected members of the audit commission in order to make collective decisions.

Decisions at meetings of the audit commission should be made by a majority vote of the audit commission members taking part in the meeting. The transfer of voting rights of an audit commission member to another person, including to another audit commission member, should not be admissible.

3.1.3. Internal documents of the company should set forth periods for conducting audits in order to prevent unreasonable delays in audits.

Extraordinary audits of the financial and business activity of the company should be started not later than thirty (30) days after the receipt of a shareholder's request or relevant minutes of a general shareholders meeting or a meeting of the board of directors. Audits should not take longer than ninety (90) days.

With the purpose of controlling the audit procedure, the board of directors should approve by-laws on Audits of the Financial and Business Activity of the Company by the Audit Commission.

3.1.4. An opinion drawn up by the audit commission should be signed by all members of the audit commission in person. A member of the audit commission who does not agree with an opinion of the audit commission, may prepare a dissenting opinion that should be attached to the opinion of the audit commission and which is an integral part thereof.

If a member of the audit commission failed to sign an opinion and failed to prepare a dissenting opinion, the opinion should indicate the reasons therefore.

3.1.5. An opinion of the audit commission resulting from an extraordinary audit of financial and business activity of the company should be presented to the audit committee and

the initiator of the extraordinary audit through the secretary of the company within three days after completion of the audit.

3.1.6. In order to ensure effective monitoring of the company's financial and business operations, the audit commission should work in close cooperation with the audit committee of the board of directors. It is recommended that the commission should provide the audit committee with full information on its activity, continuing investigations and opinions made.

4. Audit

4.1. An audit should be carried out in such a manner as to present objective and complete information on a company's activity

4.1.1. Shareholders of the company, potential investors and other interested persons should form their opinion about a company on the basis of information on its activity.

The opinion of an independent audit organization (auditor) is an important source of information on a company's activity, including its negative aspects. Such an opinion should disclose any deficiencies in the financial and business activity of the company in accordance with the auditing standards followed in the preparation of the opinion.

The professional competence of auditors, and their honesty and responsibility in performance of their duties, should be the guiding principles of independent audit organizations (auditors) in their work.

Auditors should be impartial and, therefore, preserve independence in relations with executive bodies and officials of the company, its shareholders and members of the board of directors of the company. Statutory regulations, auditing standards and professional ethics should ensure application of this principle in practice.

Moreover, since in the process of an audit of the financial and business activity of a company, an independent audit organization (auditor) receives information the disclosure of which may result in adverse effects for the company, the security of confidential information received as a result of the audit is also an important ethical requirement for the independent audit organization (auditor).

The company should take all reasonable measures to provide for approval by a general shareholders meeting of an auditor of the company to be selected from among independent audit organizations (auditors) having a good reputation, acting in accordance with the above principles.

4.1.2. Auditing annual reports is a major aspect of financial monitoring. Upon reviewing the auditors opinion, the shareholders may wish to be additionally advised on the opinion and conclusions contained therein. Therefore, it is recommended that the company's independent audit organization (auditor) should take part in general shareholders meetings and answer any

questions posed by shareholders with respect to audit reports presented to the general shareholders meeting.

4.1.3. During an audit, the company's independent audit organization (auditor) should make every effort to reveal errors, malpractices or violations of the law by the company and report such errors, malpractices and violations to the board of directors (via the audit committee) for the necessary corrective actions to be applied. This will add to shareholders' trust in the results of the audit.

It is recommended that all violations of the existing legislation and of the rules established by the company revealed by the audit in the operations of the executive bodies of the company and in the actions of its officers and employees should be communicated to the audit committee which should take appropriate steps to remedy the same.

4.1.4. Independent audit organizations (auditors) may reveal violations, however they cannot cure them. If violations are revealed the executive bodies should take all measures required to put a stop to them and minimize their effects.

Moreover, if any violations are revealed, the independent audit organization (auditor) should require the amendment of information included in regularly issued reports on the company's business.

Control over the elimination of revealed violations is a precondition for shareholder confidence in the elimination of such violations and in the accuracy of information presented to shareholders. Such control functions should be assigned to the audit committee.

4.1.5. The audit committee should evaluate whether the audit is made in accordance with the established procedure and whether the independent audit organization (auditor) omitted any matters in carrying out the audit.

In this connection, the opinion of the independent audit organization (auditor) should be presented for evaluation by the audit committee of the company before it is presented to shareholders at a general shareholders meeting.

4.1.6. Independent audit organizations (auditors) should certify compliance of the company's financial reports with the Russian accounting standards or, if the company is willing to enter international markets and undertakes to follow international financial reporting standards, compliance with such international standards.

4.1.7. The board of directors, as the body of the company responsible for preparation of issues to be raised at a general shareholders meeting, including the issue of selection of the company's auditor, is primarily interested in the selection of an independent audit organization (auditor) able to carry out an efficient and objective audit of the financial and business activity of the company.

In this connection, the audit committee should evaluate candidate independent audit organizations (auditors), and present such evaluation to the board of directors so that the board of directors has a good basis for its recommendations on the selection of an independent audit organization at a general shareholders meeting.

CHAPTER 9 DIVIDENDS

1. Dividend Amount Determination

1.1. It is advisable that the company implements a transparent and easy-to-understand mechanism for determining the amount of dividends and their payment

1.1.1. Information about the company's dividend determination and payment strategy is necessary for both existing and potential shareholders, as it may have significant impact on their decisions with respect to the sale or purchase of the company's shares.

Investing money by purchasing shares of the company, shareholders expect a certain return on their investment. This return does not necessarily take the form of dividends since net profit that is not distributed among shareholders in the form of dividends ultimately increases the value of the company's assets and stimulates the growth of the company's capitalization, thereby increasing the shareholders' wealth. In any event, the company's dividend policy directly bears on the interests of shareholders. With regard to this matter, it is advisable that the company develops a dividend payment policy for the board of directors so as to govern the latter in deciding dividends. This policy should be articulated in the company internal documents (By-laws on Dividend Policy) that should be developed by the strategic planning committee and approved by the board of directors.

1.1.2. Designing the By-laws on Dividend Policy, the company should consider the need to ensure complete transparency of the dividend determination and payment process. Therefore, the By-laws should state both the general objectives of the company with respect to increasing the wealth of shareholders and improving the capitalization of the company, and provide specific procedures based on laws and normative acts dealing with computation of the company's net profit, determination of the portion of net profit to be directed towards the payment of dividends, the terms and conditions of dividend payments, determination of the amount of dividends payable on certain shares where this amount is not specified by the company's charter, the minimal amount of dividends payable on shares of various categories (types), and the rules for payment of dividends, including dividend payment schedule, place and method.

The Regulation on Dividend Policy should also provide procedures for determining the minimal portion of net profit of the company directed towards the payment of dividends, and circumstances under which dividends are not paid or paid only partially on preferred stock with respect to which the amount of dividends is provided by the charter of the company.

1.1.3. The company should inform its shareholders and other interested persons about the company's dividend policy, considering its high importance for making investment decisions. Thus, it is advisable that the company publishes its dividend policy and all amendments to it in a periodic publication authorized by the company's charter to announce shareholders' general shareholders meetings, as well as on the company's Website, provided the latter exists.

1.2. The resolution to pay (declare) dividends should contain sufficient information to enable all interested parties to satisfy themselves as to the appropriateness of the proposed dividend payment, and to fully understand all relevant procedures

1.2.1. The dividend-related information must reflect the true financial situation of the company. Misrepresentation of the real situation may result from declaring dividends inappropriately, for instance, in violation of statutory restrictions. Information about the real financial situation of the company may also be misleading when the company declares dividends on common shares in a situation where it ends the reporting year without net profit.

Therefore, it is not advisable that the company should resolve to pay dividends if such resolution, even though it may formally comply with the existing statutory restrictions, may send misleading signals about the operations of the company. Such decisions may take place when the company declares dividends on common stock in the absence of net profit for the reporting year, or declares dividends on preferred stock when its net profit and/or the special funds created for the payment of dividends on preferred stock of a certain class are not sufficient for such payment.

1.2.2. The dividend payment resolution should enable shareholders to receive comprehensive information as to the amount of dividends and the appropriate payment procedures. Therefore, such resolution should indicate the amount of dividends payable on shares of each category (class), the method, and the payment schedule.

1.3. Procedures for determining the amount of dividends should prevent the possibility of misleading shareholders as to the amount of dividends

Pursuant to the law, dividends on common and preferred shares are paid out of net profit of the company. When determining the amount of net profit, the company should keep in mind that this amount must be the same for dividend payment purposes and for accounting purposes, because otherwise the amount of dividends will be based on either understated or overstated net profit, which will seriously impair the interests of shareholders.

Therefore, it is recommended that the company computes the amount of net profit in accordance with applicable statutory provisions for proper accounting procedures.

2. Dividend Payment

2.1. Dividend payment procedures should ensure that shareholders can fully exercise their rights to receive dividends

2.1.1. Shareholders have the right to rely on the declared amount of dividends. It is based on this amount that they form their opinion about the company's operations, as well as their opinion with respect to the company's growth prospects.

Therefore, it is not advisable to pay dividends other than in cash because in this case it is extremely difficult to determine the actual amount of the dividend. Besides, receipt of such property may be associated with shareholders having to assume additional obligations.

2.1.2. In a number of cases it may be beneficial for the company to direct all or a portion of its net profit to issuance of additional shares and their being offered to existing shareholders. However, receipt by shareholders of additional shares of the company is different from receipt of dividends because, taking into account such factors as liquidity and the market value of the additional shares, as well as the obligations attached to them, the receipt of such shares may not result in an increase of shareholders' wealth. Also, in this case shareholders are essentially denied the right to make independent investment decisions. Therefore, the company should not equate a resolution to direct funds earmarked for dividend payment to increasing the charter capital by issuance of additional shares and their being offered to existing shareholders with an actual dividend payment.

2.1.3. The accuracy of obligations and their timely fulfillment build up shareholders' trust in the company. Therefore, when setting out to pay declared dividends, the company should specify the payment procedures. Thus, it is advisable that the company establishes in its charter a deadline for payment of declared dividends, setting it not later than sixty 60 days following the date of making the decision on dividend payment.

2.1.4. When determining the form of payment, the company should seek to select the method that is the most convenient for shareholders and that complies with statutory requirements. With regard to this matter, payment of dividends to legal entities should be effected only by bank transfer.

Payment of dividends to natural persons may be effected, at their discretion, either in cash or by bank transfer. If dividends are paid by bank transfer, it is advisable that the company informs shareholders of their duty to notify the company of any changes in their bank requisites, and of the consequences of their failure to do so.

In addition, the company should also pay dividends in cash at the company's cash desk only upon receipt of an appropriate request from the shareholder. Finally, the company's resolution on dividend payment may introduce limits on cash dividend payments to shareholders who are natural persons.

3. Consequences of incomplete or untimely payment of dividends

It is recommended that companies provide for special sanctions to be applied to the director general (managing organization, manager) as well as members of the company's managerial board in the event of incomplete or untimely payment of declared dividends.

Failure to discharge, or improper discharge by the company of its duty to pay declared dividends constitutes a violation of existing legislation, and undermines the confidence of shareholders in the company. In this regard, the company should implement dividend payment procedures whereby the failure to comply with such procedures would give the company's board of directors and the audit commission of the company the right to reduce the amount of remuneration payable to the company's director general (managing organization, manager) as well as to the members of the managerial board, or to dismiss these officers. This prerogative of

the board of directors should be stipulated in the company's charter or other internal documents of the company, or in the company's contract with the director general (managing organization, manager) or with the members of the company's managerial board.

CHAPTER 10

RESOLUTION OF CORPORATE CONFLICTS

A company can carry out business activities, successfully solve problems and achieve goals set at the time of its creation only when conditions are established in the company under which corporate conflicts can be prevented and resolved, that is, conflicts between the company's bodies and its shareholders, or between shareholders, if such conflicts jeopardize corporate interests.

Prevention and resolution of corporate conflicts makes it possible to safeguard the rights of shareholders and protect the property interests and the business reputation of the company. When the company follows the law rigidly and unconditionally, and acts reasonably and in good faith in its relationships with the shareholders, the prevention and resolution of corporate conflicts is facilitated.

As the law provides for mandatory compliance with any pre-trial procedures for resolving corporate conflicts, the application of such procedures depends to a great extent on the good will of a company itself. The relevant rules can be included in a company's charter or its internal documents.

The following provisions regarding pre-trial settlement of corporate conflicts shall not prejudice the judicial remedies available to those persons whose rights are violated.

1. General Provisions

1.1. To ensure effective prevention and resolution of corporate conflicts, any conflicts which have arisen or may arise, should be identified at a very early stage and actions of all the company's bodies should be well coordinated

1.1.1. Any controversy or dispute between a company and its shareholder that has arisen in connection with the shareholder's participation in the company (including with regard to matters arising out of compliance with recommendations of the Code or internal documents of the company passed in accordance with recommendations of the Code), as well as any controversy or dispute that has arisen between the company's shareholders, which jeopardizes corporate interests, is a corporate conflict, since it affects or may affect relationships within the company. Therefore, it is necessary to ensure that such conflicts are detected at a very early stage of their development and that the company and its officers and staff address them.

1.1.2. The recording of corporate conflicts should be the duty of the secretary of the company. The secretary should record inquires, letters or demands filed by shareholders, take a preliminary review, and hand them over to a body whose authority includes resolution of a given corporate conflict.

The managers of the company's affiliates or representative offices should be assigned similar responsibilities. However, the company's secretary should also have complete

information on corporate conflicts that arise in the company's affiliates and representative offices.

1.1.3. The effectiveness of the company's effort aiming to prevent and resolve corporate conflicts hinges on the promptness of examination of such conflicts. Therefore, it is recommended that the company defines as soon as possible its policy with respect to controversial issues, makes a considered decision and communicates the latter to the shareholder(s) involved.

1.2. The company's position in corporate conflict should be based on provisions of the law

1.2.1. Prevention or resolution of many corporate conflicts is facilitated to a great extent when the company has a clear and well-grounded position in the conflict and it is communicated in a timely manner to the shareholder. Further, if the company provides comprehensive information on the matter of the conflict to the shareholder, it makes it possible to prevent the shareholder from turning to the company again with the same request or demand and establishes the conditions that enable the shareholder to realize or protect his rights and interests.

Therefore, a company should give a full and detailed answer to a request from a shareholder, and a denial of a shareholder's request should be well founded and based on provisions of the law.

1.2.2. The company's agreement to satisfy a shareholder's request may be combined with fulfillment of certain actions by the shareholder as provided by law, the company's charter or its internal documents. In this case the company's answer to the shareholder should contain a comprehensive description of such conditions and include information necessary for meeting the conditions (for instance, the fee for copying documents requested by the shareholder or the company's bank account details).

When the shareholder and the company have no dispute over the essence of their obligations, but disagree on the procedure for and time, manner and other conditions of their performance, the company should offer the shareholder to resolve the existing disagreements, specifying the terms on which the company is willing to satisfy the shareholder's demand.

2. Corporate Conflict Resolution Procedures to be Followed by Company Bodies

2.1. The scope of authority of corporate bodies regarding the review and resolution of corporate conflicts should be clearly defined

2.1.1. The director general of a company should resolve corporate conflicts related to all matters, decisions on which are not within the authority of other company bodies.

The person that fulfils the duties of the director general of the company should independently determine the manner in which corporate conflict resolution work should be conducted.

2.1.2. A company's board of directors should resolve corporate conflicts related to issues which are within its authority. For this purpose, the board of directors may form out of its members a corporate conflict resolution committee.

The board of directors or the committee formed by it should review the corporate conflicts that are within the authority of the director general (for instance, when the matter of the conflict is action (failure to act) of that body, or internal documents approved by it).

The procedure for the formation and the work of such conflict resolution committee should be determined by the board of directors.

2.1.3. The principal task to be fulfilled by the company's bodies when resolving a corporate conflict is to find a lawful and rational solution that would satisfy the interests of the company. It is recommended that the company cooperate with the shareholder when resolving a conflict by means of direct negotiations or correspondence with the shareholder.

If necessary, the company and the shareholder may sign an agreement to settle a corporate conflict. The decision on the resolution of a corporate conflict as agreed by the shareholder may be made and approved by the appropriate body of the company in the manner in which other decisions are made by such body.

The company's officials should act within their authority to assist in compliance with agreements that were signed on behalf of the company and should implement their decisions concerning the resolution of corporate conflicts or organizing the implementation of their decision.

2.2. *In order to ensure objective evaluation of the corporate conflict and establish requirements for its effective resolution, persons whose interests are or may be affected by the conflict should not take part in its resolution*

2.2.1. If the interests of the person who functions as a director general are or may be affected by a conflict at any stage of its development, such conflict should be presented for resolution to the board of directors or the conflict resolution committee of the board. Board members whose interests are or may be affected by the conflict should not participate in the conflict resolution work.

2.2.2. A person who is to take part in conflict resolution in accordance with his duties should notify the company that a conflict affects or may affect his interests as soon as such person becomes aware of that fact.

3. Participation of the Company in the Resolution of Corporate Conflicts between Shareholders

3.1. If the corporate conflict that may affect interests of the company itself or other shareholders arises between the company's shareholders, then the company's body which is tasked to examine the dispute in question should determine whether this dispute jeopardizes corporate interests, as well as whether the said body's mediatory effort may help resolve the dispute, whereupon this body should take all necessary and appropriate steps to resolve such conflict

3.1.1. If a corporate conflict arises between a company's shareholders, the person who functions as the director general may suggest to the shareholders that the company act as an intermediary in the conflict resolution.

Subject to the consent of shareholders who are parties to a corporate conflict, the company's director general may be assisted by the board of directors or the committee formed by the board of directors in acting as intermediary in the conflict resolution.

3.1.2. Subject to the consent of shareholders who are parties to the corporate conflict, the company's bodies or their members may participate in negotiations between the shareholders, provide the shareholders with available information and documents related to the conflict, explain provisions of the law on joint stock companies and company internal documents, give advice and recommendations to the shareholders, prepare draft documents on the conflict resolution to be signed by the shareholders, and, on behalf of the company and within their authority, make a commitment to the shareholders to the extent that they can help resolve the conflict.