

Approved by the decision of the  
OJSC SISTEMA JSFC General  
Meeting

On “\_\_\_\_\_” \_\_\_\_\_ 200\_\_\_\_  
Minutes of General Meeting #  
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## **PROVISION ON THE BOARD OF DIRECTORS**

**Of the Open Joint-Stock Company SISTEMA Joint-Stock Financial Corporation**



MOSCOW 2008

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## **1 General Provisions**

- 1.1 This Provision has been made under the Russian Federation Law and the Articles of Incorporation of the Open Joint-Stock Company SISTEMA Joint-Stock Financial Corporation (hereinafter referred to as the Company).
- 1.2 The Provision shall determine the procedure for the formation, the status, the composition, the functions, the goals and objectives of the Board of Directors, as well as the order of its work and interaction with the other Company managerial bodies and structural subdivisions.
- 1.3 This Provision shall be approved by the Company General Meeting and may be altered, supplemented and canceled only by the decision of such Company managerial body.
- 1.4 The Board of Directors shall be a collegial managerial body of the Company, perform a general management of its activity, except those matters related to the competence of the Company General Meeting, as well as shall be guided by the RF legislation, the Company Articles of Incorporation, the decisions of the general meetings of shareholders, this Provision and other corporate normative acts of the Company.
- 1.5 The General Meeting decisions shall be obligatory to execute by the Company Board of Directors to the extent of its competence.
- 1.6 The BOD decisions shall be obligatory for the Company Executive Bodies.

## **2 Goals and Objectives of the Board of Directors**

### **Rights, Duties and Responsibilities of the BOD Members**

### **Formation of the BOD Composition**

#### **2.1 Goals and Objectives of the Board of Directors**

- 2.1.1 The primary goals of the Board of Directors shall be the following:
  - 1) Development and analysis of a company-wide strategy, as well as control over its implementation;
  - 2) Provision of control and evaluation of the activity of the executive bodies and CEO's of the Company;
  - 3) Increase in the Company capitalization, extension of its market positions, achievement and holding the Company competitiveness;
  - 4) Holding the financial security, increase in revenues and profitability;
  - 5) Protection of the Company shareholders' rights and legitimate interests.
- 2.1.2 To achieve such goals, the Board of Directors shall solve the following problems to the extent of its competence:
  - 1) Determination of the perspective and priority business activities of the Company; organization of the development of a strategic and general economic policy of the Company, control over its implementation; approvals of financial plans and budget of the Company;
  - 2) Evaluation of the results of activity of the Company and its bodies, formation of an effective organizational structure and the Company management system; determination of the criteria for the managerial personnel formation; carrying out of control over activity of the Company executive bodies and CEO's, development of the systems, methods of motivation and stimulation of the executive bodies and personnel
  - 3) Evaluation of the managerial, financial, political and other risks, which affect the Company activity, provision of the financial security of the Company; provision of an effective system of internal control.

- 4) Determination of approaches to effectuation of investment and participation in the other organizations;
- 5) Provision of compliance with the RF legislation by the Company; provision of compliance with the corporate management principles; disclosure of the complete, accurate and objective information of the Company, provision of an effective system of internal control

2.1.3 The competence of the Board of Directors has been determined by the Company Articles of Incorporation.

## **2.2 Rights of the Board of Directors and its Members**

2.2.1 The Board of Directors shall be entitled to:

- 1) Hear the Company CEOs' reports in accordance with its competence;
- 2) Request for auditing (inspection) of the Company finance and business operations by the Audit Commission;
- 3) Establish committees and commissions to solve specific problems both out of the number of its members and with the attraction of the Company and outside experts;
- 4) Nominate candidates to be the BOD and Audit Commission members, if such candidates have not been nominated by the shareholders, or an insufficient number of candidates have been nominated; make proposals to the General Meeting as for the approval of an Auditor of the Company;
- 5) Make any other actions to the extent of its competence;
- 6) For the purpose of the provision of performing its functions by the Board of Directors, create a machinery or a similar subdivision for the Board of Directors;
- 7) Involve the outside independent experts in the draft decision expertise.

2.2.2 A BOD member shall have the right to:

- 1) Request from the Company executives and employees to provide any information (documents and materials) and clarifications as for the Company activity. A request (inquiry) for the information provision shall be sent through the Corporate Secretary in care of the Chairman of the Board of Directors, and shall have to be signed by its originator – a member of the Board of Directors.
- 2) Receive compensation for the discharge of his/her duties and/or reimbursement of expenses related to the performance of functions of a member of the Company BOD, according to the procedure established by the Company General Meeting decision pursuant to the Provision on remunerations and compensations paid to the members of the Board of Directors;
- 3) Demand for his/her special (separate) opinions on the agenda issues and decisions made to enter in the minutes of a BOD meeting.

## **2.3 Duties of the BOD Members**

2.3.1 The activity of a member of the Board of Directors shall be continuous and not limited to the participation in the meetings and making decisions of the Board of Directors.

2.3.2 A BOD member shall be obliged to:

- 1) Be loyal to the Company;
- 2) Exercise his/her rights and discharge his/her duties as a member of the Board of Directors reasonably, with good faith, due care and in accordance with the goals and objectives of the Board of Directors and the Company;
- 3) Initiate the meetings of the Board of Directors to solve urgent issues;
- 4) Attend and take active part in preparation and discussion of the issues considered at the meetings of the Board of Directors;

- 5) Participate in making the BOD decisions by voting on the issues of the agenda of its meetings;
- 6) Make justified decisions, for the purpose of which, study all information (materials) required, make investigations and deliver to all members of the Board of Directors all information (without distinction) concerned with the decisions made;
- 7) Participate in the work of the BOD Committees, the member of which he/she is;
- 8) Provide the Company with the following information: about himself (herself) and his/her affiliated persons, as well as with any other information, data and documents required for the Company to meet the requirements of the Russian Federation legislation and to achieve its goals in accordance with Appendix 1 to this Provision. In case of any changes in the submitted data, a member of the Board of Directors shall be obliged to notify the Company about it;
- 9) Deliver the information to the Board of Directors, Company Audit Commission and Company Auditor as for the assumed transactions in making of which he/she may be recognized as interested, including the one about:
  - Those legal entities where they own independently or jointly with their affiliated person(s) 20 or more percent of voting shares (stock);
  - Those legal entities, in the managerial bodies of which they hold positions;
  - Those made or assumed transactions known to them, where they may be recognized as interested persons;
- 10) Inform the Board of Directors of his/her intention to take part in the authorized capital stock or in the work of the competitors' managerial bodies;
- 11) Disclose the information of holding the Company securities, as well as of the sale and/or purchase of the Company securities, notify the Chairman of the Board of Directors of his/her intention to make deal with the Company shares;
- 12) Attend at a General Meeting and answer the meeting participants' questions, execute the Company BOD orders, provide execution of the decisions made by the Board of Directors and General Meeting of the Company;
- 13) In accordance with the corporate (internal) documents approved with the Company as for the preventive measures against the use of the information, the disclosure of which may affect significantly the corporation securities market value, not to disclose the insider information to the third persons, as well as not to use such information for any personal advantage or to the benefit of the members of their affiliated persons' families.

## **2.4 Responsibilities of the Company BOD Members**

2.4.1 The Company BOD members shall bear responsibility to the Company for the losses caused to the Company by their guilty activities (inactivity), under the current legislation of the Russian Federation. At that, those members of the Board of Directors who have voted against (or not participated in voting) making the decision resulted in the cause of losses to the Company, shall bear no responsibility for such decision consequences.

2.4.2 The members of the Board of Directors shall refrain from any actions, which will or may lead to the conflict between their interests and the ones of the Company, and in case of availability or appearance of such conflict – shall disclose the information about it to the Board of Directors.

2.4.3 A member of the Board of Directors shall not be entitled to receive presents or other forms of compensation, reward or remuneration from those persons interested in making a decision by the Board of Directors which would provide such persons with the direct or indirect benefits.

2.4.4 The Company or a shareholder (shareholders) which in total hold at least one percent of the offered ordinary Company shares, shall be entitled to apply to the court with a claim against a member of the Company BOD to require the compensation of

the losses caused to the Company in the cases provided by the current legislation of the Russian Federation.

2.4.5 The Company shall insure the BOD members' property responsibility arisen as a result of actions at law or claims brought to the Director/Directors by the third persons or the Company shareholders in the view of the business decisions or any other actions of such Director/Directors made by him/her/them as a member of the Board of Directors of the Company or its subsidiaries. The insurance coverage amount for the members of the Board of Directors shall be determined based on the market value of the Company public (free) float and evaluation of the risk of rendering judicial decisions for the benefit of the third persons or shareholders on the claims brought to the Director/Directors in the view of the business decisions or any other actions of such Director/Directors made by him/her/them as a member of the Company Board of Directors. The final insurance coverage amount and other insurance policy conditions shall be determined by the BOD decision.

## **2.5 Composition of the Board of Directors**

2.5.1 A quantitative composition of the Board of Directors shall be determined pursuant to the provisions of the Company Articles of Incorporation.

2.5.2 The Company Executive Body members may not constitute more than 25 percent of the quantitative composition of the Company Board of Directors.

2.5.3 In case where the number of the Company BOD members becomes lower than the number that constitutes the quorum to hold a meeting of the Board of Directors, the Company Board of Directors shall be obliged to make a decision on holding an extraordinary General Meeting to elect the new composition of the Company Board of Directors. The rest of the Company BOD members shall be entitled to make a decision on calling such an extraordinary General Meeting only.

2.5.4 The retired members of the Board of Directors shall mean the deceased, missing (untraceable) and disqualified persons.

2.5.5 The Company BOD composition may be parted by (it is recommended) the independent directors. That member of the Board of Directors shall be recognized as independent who:

- 1) By the time of his/her election has not been an employee or an executive of the Company or a group of the entities where the Company was a member in the last 5 years;
- 2) Does not have or did not have any essential business relations with the Company irrespective of whether such relations have been direct, or the existing director has been acted in them as a partner, shareholder, director or leading employee of any company having the corresponding relations with the Company, and who, moreover, has not been a contractual party with the Company under the terms of obligations of which he/she may purchase such property (receive funds), the cost of which is 10 or more percent of his/her total annual income except any compensation for the participation in the Company BOD activity;
- 3) Did not or does not receive any extra compensation from the Company, other than the compensation for the performance of functions of a BOD member, does not participate in the option schemes implemented by the Company, or in the other schemes, the payments on which are based on the activity results, and the pension schemes;
- 4) Has no close family relationship and is not a husband, parent, son or daughter, brother or sister of the directors, leading employees, executives, advisors, the Company Manager or the executives of a managing organization of the Company;
- 5) Is not an affiliated person of the Company (except the membership in the Company Board of Directors) and its affiliated persons, as well as is not a CEO of a

subsidiary or dependent company, a Manager or a CEO of a managing company, its subsidiary or dependent company; at the same time, is not a member of the Board of Directors of the companies essentially related to the other members of the Company Board of Directors, or is not otherwise related to the other Company BOD members through his/her participation in the companies or managerial bodies of the corresponding companies related to the other Company BOD members;

- 6) Upon the expiry of 5-year period of discharge of a BOD member's duties, an independent member of the Company Board of Directors cannot be considered as independent;
- 7) Is not a representative of a principal shareholder of the Company or the state

2.5.6 The Non-Executive Directors – the BOD members who are not the members of the Company executive bodies, may be a part of the Company Board of Directors.

2.5.7 At the first meeting of the Board of Directors where such a Board of Directors has been elected, the Board of Directors shall determine the status of each of the Company BOD members (independent, non-executive and executive).

## **2.6 Election of the BOD Members and termination of their powers**

2.6.1 The Company BOD members shall be elected by the General Meeting according to the procedure provided by the Company Articles of Incorporation, this Provision and the General Meeting Provision, for a period of up to the next annual General Meeting. If the annual General Meeting has failed to be held within the periods provided by Paragraph 1 of Article 47 of the Federal Law "Of Joint-Stock Companies", the powers of the Company Board of Directors shall be terminated, except the ones on preparation, convening and holding the annual General Meeting. The powers of all members of the Board of Directors may be terminated early at an extraordinary General Meeting.

2.6.2 A member of the Board of Directors can be any natural person proposed by a shareholder or other persons and managerial bodies that have the right under the RF legislation and the Company Articles of Incorporation to nominate candidates to the BOD composition, and elected by the General Meeting according to the established procedure. Those persons nominated as the candidates to the BOD membership shall be imposed with the requirements set forth in Appendix 2 to this Provision.

2.6.3 Those persons elected to the Company BOD composition may be reelected in an unlimited number of times.

2.6.4 A member of the Board of Directors may simultaneously be a member of the Company Audit Commission.

2.6.5 The BOD members may simultaneously be the members of the Tabulation Commission.

2.6.6 The Company shares held by the Company BOD members cannot participate in voting upon the election of the Company Audit Commission.

2.6.7 The nomination of the candidates to the BOD composition shall be carried out according to the procedure provided by the Company Articles of Incorporation and the Provision on the Company General Meeting. It is recommended to nominate those persons as the candidates to the BOD membership, who have given their consent by the time of nomination to the election in no more than 5 Boards of Directors.

2.6.8 Upon nomination of the BOD members the shareholders shall submit the following information of candidates to the Company:

- 1) Full name, passport data and contact information;
- 2) Age of a candidate;
- 3) Data of education and the scientific degrees available with a candidate;

- 4) Data of the positions occupied by a candidate for the last 5 years, as well as the data of such candidate's membership in the managerial bodies of legal entities for the last 5 years;
- 5) Data of a candidate's nomination to the BOD membership (and/or to the BOD Committees) or for the election (appointment) to the position with other legal entities;
- 6) Data of a person who has nominated such a candidate;
- 7) Information of holding the Company shares by a candidate (specifying their number);
- 8) Data of the nature of relations between a candidate and the Company (whether such candidate is currently a member of the Company managerial body or control authority – a member of the Board of Directors, a member of the Board, a member of the Audit Commission, a Director General, a member of the Company BOD Committee, as well as whether he/she holds any other positions in the Company; obtains compensation (remuneration) for the participation in the Company managerial bodies and control authorities, as well as for the participation in the BOD Committee, etc., or not);
- 9) A written consent of a candidate to be elected to the Company Board of Directors, a Questionnaire and a consent to the personal candidate's data to be processed (according to the form provided in Appendix 3 to this Provision), signed by such a candidate;

2.6.9 The BOD members shall be elected by cumulative voting by the General Meeting.

2.6.10 The powers of the Board of Directors shall be terminated after making a decision by the General Meeting on the termination of the BOD powers.

2.6.11 Be the decision of the General Meeting the powers of all BOD members may at the same and any time before the expiry of the terms of office be terminated early.

### **3 Organization of work of the Board of Directors**

#### **3.1 Chairman and Deputy Chairmen of the Board of Directors**

3.1.1 The Chairman of the Board of Directors shall be elected by the BOD members out of their number. The election of the Chairman of the Board of Directors shall be carried out by open majority vote of the total number of the Company BOD members.

3.1.2 A person who performs the functions of a sole executive body of the Company cannot simultaneously be the Chairman of the Board of Directors.

3.1.3 The Board of Directors shall be entitled to reelect the Chairman of the Board of Directors at any time.

3.1.4 The BOD members shall be entitled to elect those Deputy Chairmen of the Board of Directors, who perform the functions of the Chairman of the Board of Directors during the absence of the latter.

#### **3.2 Functions of the Chairman of the Board of Directors**

3.2.1 Chairman of the Board of Directors shall:

- 1) Represent the Board of Directors and act on its behalf in the interactions with the Company executive bodies, shareholders and third persons;
- 2) Plan and organize the BOD work;
- 3) Call (convene) the meetings of the Board of Directors and take chair at them;
- 4) Determine the form of holding the meetings;
- 5) Form the agenda of the meeting;
- 6) Organize taking of minutes at meetings;
- 7) Take care of providing the BOD members with the information on the agenda of a regular (stated) meeting;



- 8) Provide a public and open discussion of the issues in question at a meeting, take all BOD members' opinions into consideration upon making decisions, sum up the discussion and state (formulate) the decisions being made;
- 9) Announce the BOD members' proposals and opinions come to his hand on the issues belonging to the BOD competence; on creation of the BOD Committees and their manning;
- 10) Sign the letters and other documents outgoing from the Board of Directors, as well as certify the extracts from the BOD minutes;
- 11) On behalf of the Company sign a contract with the President or a managing company, as well as with the Company Board members;
- 12) Take chair at the General Meeting;
- 13) Bear a personal responsibility to the General Meeting for the organization of the Company BOD activity.

3.2.2 In case of the absence of the Chairman of the Company Board of Directors and his/her deputies, his/her functions shall be performed by one of the BOD members by the decision of the Board of Directors.

### **3.3 Board of Directors Front Office (Secretariat)**

- 3.3.1 The Corporate Secretary of the Company is the leader of the Front Office (Secretariat) of the Board. He/she is reporting to the CEO directly.
- 3.3.2 The Board appoints the Corporate Secretary after nomination by the CEO. The Board votes the appointment by ordinary majority of the participants of the corresponding meeting.
- 3.3.3 The Corporate Secretary is the Company's Officer. The Board is authorized to re-elect the Corporate Secretary Appointee.
- 3.3.4 The Corporate Secretary shall be a person meeting the herein requirements:
  - 1) Higher education (College Degree and above);
  - 2) Corporate management experience not less than 3 years;
  - 3) Knowledge of the corporate legislation of Russian Federation;
  - 4) Knowledge of the securities market legislation including information disclosure by issuers in the securities market and the regulations for the listed market professional vehicles such as registrars, exchanges etc...
  - 5) Knowledge of the update domestic and foreign documentation on the corporate management;
  - 6) The appointee shall be handy with PC;
  - 7) Negotiations skills;
  - 8) Personal skills and abilities including independence of judgment and defense of own opinion;
  - 9) No criminal record or disqualification conforming to Russian Administrative Code is admitted.
- 3.3.5 The Corporate Secretary duties are defined by the statute of the corporate secretary in the following paragraphs:
  - 1) Elaboration and legalization of the Company's endogenous documents concerning the corporate management system and practical implementation of the corporate management development guidelines;
  - 2) Corporate norms and Russian legislation standards regulating the corporate management functioning observation;
  - 3) Organizational support and conduct of the Shareholders general meetings;
  - 4) The Board and its committees work planning and support;
  - 5) Secure documents handling and disclosure of the Company's information;
  - 6) Interaction between the Company and the shareholders;
  - 7) Interaction between the Company and the Registrar.

### 3.4 The Board of Directors Secretary

- 3.4.1 The responsibility to conduct meetings of the Board preparation and taking minutes lies with the secretary of the Board. The Board has the right to elect and re-elect the Secretary any time.
- 3.4.2 The Secretary shall meet the herein requirements:
- 1) Higher Education (College Degree and above);
  - 2) Corporate management experience of 2 years at least;
  - 3) Corporate legislation of Russia basic knowledge;
  - 4) Corporate management principles basic knowledge;
  - 5) PC handy;
  - 6) Personal abilities and skills in the field of negotiations and VIP meetings;
  - 7) No criminal record or disqualification conforming to Russian Administrative Code.
- 3.4.3 The Board Secretary is responsible for organizational support of the Board minutes. With this regard he/she shall perform the herein duties:
- 1) Informing the Board members and the invited persons on the coming meetings of the Board;
  - 2) Distributing agendas and corresponding attached files of the meeting among the members of the Board;
  - 3) Maintaining records and informing the present Board members regarding the opinions on the minutes by the absent members expressed in the written memoranda;
  - 4) Taking minutes of the Board;
  - 5) Keeping documental roster of the Board;
  - 6) Informing members of the Board, shareholders and Officers of the Company on the Board minutes and distributing copies of the minutes and the abstracts of the minutes at short notice;
  - 7) Preparing written ballots for absentee voting in case of remote meetings convocation, collecting the ballots and finalizing minutes voting on the agenda;
  - 8) Keeping the Board members personal details roster;
  - 9) Monitoring the Board corresponding assignments accomplishment records;
  - 10) Preparing and obsignating the minutes of the Board abstracts;
  - 11) Assisting the CEO in the meeting of the Board conduct.
- 3.4.4 The Secretary of the Board is vested in the responsibility:
- 1) To request information, documents, and clarification from the Officers of the Company necessary to accomplish his/her duties;
  - 2) To request and assess the Board's assignments accomplishment confirmation.
- 3.4.5 The Secretary of the Board is vested in the responsibility:
- 1) To secure the Company interests in course of his/her duties accomplishment sanely and responsibly;
  - 2) To observe strictly the legislative standards of Russian federations and the corporate regulations of the Company;
  - 3) To ensure confidentiality of the classified information accessed within the course of his/her duties accomplishment;
  - 4) To refuse employing the known inside information for his/her own purpose, never share such information with the third parties, never make deals assisted by the inside information;

- 5) To be timely aware of the internal regulating documents and to strictly observe the rules stipulated by these documents;
- 6) To accomplish assignments by the CEO;
- 7) To report on his/her duties to the Front Office Senior Officer (the Corporate Secretary).

#### 3.4.6 The Secretary of the Board duties make provision for

- 1) Material liability be the case of the direct loss inflicted to the Company by the Secretary if no other liability is stipulated by the federal law;
- 2) The Secretary is liable for any information disclosure provided the information is classified or constitutes a commercial secret according to the Company internal regulations;
- 3) The Secretary of the Board is liable for misuse of the inside information (confidential) pertaining to the Company for personal purposes.

### 3.5 Committees of the Board Setup and Functioning

- 3.5.1 In order to provide better preparation and timely assessment of the issues at the meetings of the Board and to improve interaction with the Company management accomplishing the vested in their duties and to better monitor the assignments by the Board execution, the Board sets up the organic Committees of the Directors. The list of such committees is decided by the Board. However, there are mandatory committees to be established. They are the Strategic Committee, the Rewards and Appointments Committee, the Audit Committee and the Corporate Ethics Committee.
- 3.5.2 The Audit Committee and the Rewards and Appointments Committee are created only from the independent directors resource, be the latter impossible, the committees are manned by the independent and non-executive directors only, whereas the number of the independent directors in the relevant Committee is recommended to be not less than 50%.
- 3.5.3 The Committees may involve the Officers of the Company, representatives of the shareholders and other experts including the possibility of full membership in the Committee.
- 3.5.4 The Committees of the Board operate based upon the statutes and plans approved by the Board, operative plans confirmed by the Committees and aligned with the Board.
- 3.5.5 The issues vested in the competence of the corresponding Committee shall have been deliberately assessed by the said Committee before being presented to the Board. In case the relative decision by the Committee has not been elaborated, the issue might be decided by the CEO not to be reviewed at the meeting of the Board.
- 3.5.6 The decisions by the Committees are only advisory for the Board. The Committee is not regarded a governing body of the Company.

## 4 Meetings of the Board and Decision Making

### 4.3 The Order of the Meeting of the Board Convocation

- 4.3.1 The meetings of the Board shall be convened on the preplanned basis. The job schedule is elaborated for one year for the intermediate period between two General meetings of the shareholders. Be the necessity but at least once in half a year the job schedule shall be subjected to adjustments (correction). The job schedule is planned in conformity with the Statute of the Board.

- 4.3.2 The meeting of the board is evoked by the CEO on his/her own, under the request of the member of the Board, by the Internal Audit Board or by Audit Officer of the Company, by the President of the Company and other officials stipulated by the Federal Law on Share Companies and the Charter of the Company.
- 4.3.3 Written demand for convocation of the meeting of the Board shall comprise the following:
- 1) The issue review or incorporation in the planned agenda initiator's reference;
  - 2) The issue wording and the decision draft;
  - 3) The issue review necessity explanation;
  - 4) Reference materials.
- 4.3.4 The extraordinary meeting of the Board convocation memorandum shall be signed by the initiator party.
- 4.3.5 The extraordinary meeting shall be convened within the period of 15 days since the evocation memorandum was received.
- 4.3.6 The CEO is authorized to reject the extraordinary meeting demand or to include the suggested issue in the agenda of the adjoining meeting in the cases when:
- 1) The extraordinary meeting convenance or an issue review was demanded by an unauthorized person;
  - 2) The raised issue is not the authority of the Board;
  - 3) The addition issue review demand is received after the coming meeting agenda and corresponding materials distribution among the members of the Board have been effected.
- 4.3.7 Every member of the Board receives the meeting convenance notice with attached files not later than in 8 office days prior to the meeting in the format and order set by the Statute of Board. In case of remote voting the files comprise the ballot (Addendum #4).
- 4.3.8 The maiden meeting of the board shall be convened on the same day when the General Shareholders meeting elects the Board. In case when such a meeting has not been conducted on the same day as the General Meeting, the eldest member of the Board shall initiate the meeting of the Board not later than in one week after the General Meeting that elected the Board occurred.
- 4.3.9 The first meeting of the Board reviews the herein issues: election of the CEO, appointment of the Secretary of the Board and/or the Corporative Secretary of the Board, Committees of the Board setup, status of the members of the Board definition.

#### **4.4 The Meetings of the Board Convenance Order**

- 4.4.1 According to the CEO decision the meeting could be held either in praesentia or in the remote conference way.
- 4.4.2 The meeting in praesentia is recognized legally competent when it is attended by not less than half of the elected members are present (excluding cases when the Charter, the law or the present statute insist on wider house). Prior to every meeting of the Board the Secretary shall make official records of each member presence. The member of the Board may be present in person at the meeting in praesentia, or such a meeting may be conducted by means of electronic media or by telephone exchange. In the latter case, the Secretary shall provide tape or digital recording of the minutes.
- 4.4.3 The Board reviews the issues included in the agenda.
- 4.4.4 The invited persons may attend the meeting under the permission by CEO only.
- 4.4.5 The remote meeting is recognized legally competent when attended by at least a half of the elected members of the board, besides when the wider house is

urged by the law, or the Charter of the Company. Prior to every such meeting the received ballots are recorded.

- 4.4.6 When the Board convenes a remote meeting, they shall abstain from the following issues remote voting:
- 1) The Company's business priorities resolution;
  - 2) Annual Meeting of the shareholders convocation;
  - 3) Equity of the Company expansion;
  - 4) Annual Report preliminary voting;
  - 5) The Company President Appointment and Agreement between the President and the Company approval.

#### **4.5 The Board of Directors Decision Making**

- 4.5.1 The draft shall be considered adopted when more than a half of the present members voted for it (when a wider quorum is not stipulated by the law or the Charter). In case of the draw vote the CEO's vote shall be decisive.
- 4.5.2 When the house is decided competent in praesentia and the agenda issues voting is legalized, the written memoranda of the absent members shall be considered. Such a memorandum shall be signed by the member of the Board with the attached wording of the signature.
- 4.5.3 The memorandum by a member of the Board may contain his/her vote on the agenda issues on some of the agenda issues. The memorandum shall clearly express the opinion of the member on the draft (aye-nay-abstained).
- 4.5.4 Be the member's of the board memorandum not included in the attached files prepared for the adjoining meeting of the Board accessible to the members of the Board, the chairperson of the meeting shall read out loud the memorandum by the absent member of the Board prior to the concerned agenda item voting.
- 4.5.5 When the CEO signs the minutes' record the decision by the Board comes into effect.

#### **4.6 The Board Minutes Record**

- 4.6.1 The minutes of the Board are taken. The record is compiled by the secretary of the meeting not later than in 3 days after the meeting.
- 4.6.2 The record shall comprise the following data:
- 1) Place and time of the conduct;
  - 2) Attending Officers;
  - 3) Agenda;
  - 4) Voted drafts and voting results;
  - 5) Decisions by the Board.
- 4.6.3 The minutes' record is signed by the chairperson of the meeting who is liable for the correct wording of the record.
- 4.6.4 The Secretary of the Board compiles the copies or the abstracts of the minutes verified by the CEO at short notice by the members of the Board and top managers of the Company.

#### **4.7 The Board of Directors Bylaw**

- 4.7.1 The Board elaborates more detail requirements for the planning, convocation and conduct of the meetings, information of the members, minutes taking, and

monitoring of the decisions execution. The details are enumerated in the Statute of the Board of Directors.

## **5 Evaluation of the board Efficiency and Rewards**

5.3 The rewards and reimbursements volume payable to the members of the Board is decided by the General Meeting of the Shareholders in conformity with Members of the Board Rewards and Reimbursements regulation.

5.4 The Board annually evaluates its own work and the work by Committees.

**The member of the Board relation to affiliated persons and considerable counterparties**

1. Relation to the Acting Board, the Management, the Audit Commission members, and with the CEO
2. Relation to legal entities where the Company is a shareholder (participant) authorized to control more than 20% of ordinary shares (stocks, equity position).
3. Relation to individuals controlling more than 2% of the ordinary shares of the Company.
4. The member of the Board relation to the same group individuals that own the Company.
5. The member of the Board relation to the considerable counterparties of the Company

**Member of the Board**

**Signed by**

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**Requirements to the candidate members of the Board, OAO AFK SYSTEMA Public Corporation**

1. Age above 25.
2. Work experience at least 3 years.
3. No criminal economic record.
4. No official ban to take management service positions.
5. The candidate shall not be a member of the control and monitoring bodies of the companies competing with OAO AFK SYSTEMA and he/she shall not be an affiliated with such companies person.