



APPROVED BY:  
Decision of Annual General Meeting of Shareholders of  
PJSC LSR Group  
dated \_\_\_\_\_, 2017 (Minutes No. 1/2017)

## **REGULATION ON BOARD OF DIRECTORS OF PJSC LSR GROUP**

(REVISED VERSION)

SAINT PETERSBURG, 2017

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## **1. GENERAL PROVISIONS**

1.1. This Regulation on the Board of Directors of Public Joint-Stock Company LSR Group (the “Regulation”) has been developed in accordance with the requirements of the laws of the Russian Federation (“Russia”) and the provisions of the Charter of PJSC LSR Group (the “Company”), listing rules of stock exchanges where the Company’s securities are quoted, the Corporate Governance Code recommended by the Bank of Russia.

1.2. The Regulation defines objectives, competence, procedure for operations of the Board of Directors (the “Board of Directors”), its rights and duties, composition, procedure for formation and operation, procedure for interaction with the Company management bodies.

1.3. In its operations, the Board of Directors shall be guided by the laws of Russia, the Charter of the Company (the “Charter”), the Code of Ethics of the Company, the Corporate Governance Code recommended by the Bank of Russia, this Regulation and any other in-house documents of the Company.

## **2. OBJECTIVES OF THE BOARD OF DIRECTORS**

2.1. The key objectives of the Board of Directors are as follows:

2.1.1. Determining the Company’s development strategy aimed at increasing the equity value of the Company in the long-term subject to the macroeconomic situation.

2.1.2. Ensuring effective control of the financial and business activities of the Company.

2.1.3. Providing for the exercise and protection of shareholders’ rights as well as assistance in resolving corporate conflicts.

## **3. COMPETENCE OF THE BOARD OF DIRECTORS**

3.1. The competence of the Board of Directors is stipulated in the Federal Law “On Joint-Stock Companies”, Company’s Charter and this Regulation.

3.2. The Board of Directors performs general management of the Company’s activities save for the matters referred by the Federal Law “On Joint-Stock Companies” and the Charter to the competence of the General Meeting of Shareholders (the “General Meeting of Shareholders”).

3.3. The competence of the Board of Directors shall include:

3.3.1. Identification of the priorities of the Company’s activities, including the approval of strategic plans, annual and quarterly budgets of the Company.

3.3.2. Convening annual and extraordinary General Meetings of Shareholders, except for cases set forth in Article 55 (8) of the Federal Law “On Joint-Stock Companies” and taking decisions for convocation and holding thereof.

3.3.3. Approval of the agenda of the General Meeting of Shareholders.

3.3.4. Determination of the record date for the General Meeting of Shareholders, and other matters referred to the competence of the Board of Directors in accordance with Chapter VII of the Federal Law “On Joint-Stock Companies” and relating to the preparation for and holding of the General Meeting of Shareholders.

3.3.5. Preliminary approval of annual reports of the Company.

3.3.6. Approval of financial plans and reports of the Company in the cases set forth in the Company’s internal documents.

3.3.7. Establishment of executive bodies of the Company and early termination of their powers including, but not limited to:

- Election and early termination of powers of the Chief Executive Officer of the Company (the “CEO”), the right to determine the amount of his/her remuneration and compensations, approve and modify the terms and conditions of the contract stipulating his/her rights and duties, and termination thereof.

- Determination of the number of members of the Executive Committee of the Company (the “Executive Committee”) and the term of its powers, election and early termination of powers of Executive Committee members upon motion of the CEO, the right to determine the amount of remunerations and compensations payable to them, approve and modify the terms and conditions of the contract stipulating their rights and duties, and termination thereof.

- Submission to the General Meeting of Shareholders for resolution any issue of transferring the powers of the Company’s sole executive body to a management entity or a manager, and early termination of powers of the management entity (manager).

3.3.8. Increase in the authorized capital of the Company by means of placing additional shares within the quantity and categories (types) of authorized shares using the Company’s assets when placement of additional shares is carried out through their purchase by the shareholders.

3.3.9. Increase in the Company’s authorized capital by means of placing additional ordinary shares within the quantity of authorized shares of this category (type) by open subscription in the amount of 25 or less percent of the previously placed ordinary shares of the Company.

3.3.10. Increase in the Company’s authorized capital by means of placing additional preferred shares within the quantity of authorized shares of this category (type) by open subscription.

3.3.11. Placement by open subscription of bonds convertible into ordinary shares and other issued securities that may be converted into ordinary shares in the amount of 25 or less percent of the previously placed ordinary shares.

3.3.12. Placement of bonds convertible into shares and other issued securities convertible into shares by open subscription.

3.3.13. Placement of bonds non-convertible into shares and other issued securities non-convertible into shares.

3.3.14. Adoption of a decision on securities issue, prospectus and amendments thereto.

3.3.15. Determination of the price (monetary evaluation) of the assets, price of placement and redemption of issued securities in cases stipulated by the Federal Law “On Joint-Stock Companies”.

3.3.16. Acquisition of shares placed by the Company pursuant to Article 72 (2) of the Federal Law “On Joint-Stock Companies”.

3.3.17. Acquisition of bonds and other securities placed by the Company in cases stipulated by the Federal Law “On Joint-Stock Companies”.

3.3.18. Approval of reports on results of share purchases in accordance with Article 72 (1) of the Federal Law “On Joint-Stock Companies”.

3.3.19. Recommendations to the General Meeting of Shareholders on the amount of remunerations and compensations payable to the members of the Internal Audit Commission of the Company (the “Internal Audit Commission”).

3.3.20. Determination of the amount payable for the services of the Company’s auditor.

3.3.21. Recommendations to the General Meeting of Shareholders on the amount of dividends on shares and procedure for their payment.

3.3.22. Recommendations to the General Meeting of Shareholders on the profit and loss distribution procedure of the Company based on the results of the reporting year.

3.3.23. Use of the reserve fund and other funds of the Company.

3.3.24. Approval of Company’s internal documents except for internal documents regulating the activities of the Company’s bodies established by resolution of the General Meeting of Shareholders as well as other internal documents of the Company to be approved by executive bodies of the Company in accordance with the Charter, and approval of amendments thereto.

3.3.25. Approval of the Company’s internal document on the use of information regarding the Company’s activities, securities and transactions which is not publicly available and disclosure of which may have a material effect on the market value of Company’s securities.

3.3.26. Adoption of a decision concerning the appointment of the director of the structural unit performing the internal audit of the company, releasing him from the position he currently occupies, and approval of the Regulation on the indicated structural subdivision.

3.3.27. Establishment and liquidation of the Company's branches, representative offices, adoption of regulations on branches and representative offices, making of amendments and supplements thereto.

3.3.28. Approval of an agreement on shareholder's contribution to the Company's assets.

3.3.29. Consent to or subsequent approval of major transactions in cases stipulated in Chapter X of the Federal Law "On Joint-Stock Companies".

3.3.30. Consent to or subsequent approval of transactions specified in Chapter XI of the Federal Law "On Joint-Stock Companies".

3.3.31. Approval of transactions worth 10 percent and more of the value of the Company's assets determined on the basis of the Company's accounting (financial) statements) as of the latest reporting date, performed in the ordinary course of operations of the Company;

3.3.32. Approval of transactions performed by subsidiary and related companies as well as companies where the Company indirectly, via its subsidiaries, holds a stake in the authorized capital in excess of 50%, and involving acquisition, disposal, or a possibility of disposal by the aforesaid companies, directly or indirectly, of property the value of which constitutes 25 percent and more of the book values of the assets of the above companies determined on the basis of their accounting (financial) statements as of the latest reporting date but not less than one hundred million (RUB 100,000,000) rubles other than:

- transactions performed by the companies concerned in the ordinary course of their operations;
- transactions relating to the provision by such companies of performance bond covering Company's and/or its subsidiaries' and affiliates' obligations to credit institutions, foreign banks or public corporations.

3.3.33. Approval of the Company's registrar and the terms and conditions of agreement therewith and termination of the agreement with the registrar.

3.3.34. Adoption of a decision to inspect financial and business activities of the Company at any time.

3.3.35. Adoption of a decision to suspend the authority of the management entity / managing director.

3.3.36. Determination of the list of additional documents to be kept by the Company.

3.3.37. Evaluation of performance of plans and budgets by executive bodies of the Company.

3.3.38. Establishment of committees of the Board of Directors, approval of regulations thereon and election of chairpersons and members thereof.

3.3.39. Adoption of a decision on the appointment for the position of the Corporate Secretary of the Company (the "Corporate Secretary") and termination of his/her authorities, approval of the Regulation on the Corporate Secretary.

3.3.40. Review of proposals of the shareholders with respect to candidates to the Board of Directors, Internal Audit Commission and adoption of decisions on including the candidates in the nominees' lists for voting at the General Meeting of Shareholders.

3.3.41. Review of the motions received from shareholders:

- regarding the items to be included in the agenda of the General Meeting of Shareholders;
- regarding the convening of extraordinary General Meeting of Shareholders and adoption of the decision to convene or refuse to convene it within five (5) days.

3.3.42. Circulation of the decision to convene an extraordinary General Shareholders Meeting or motivated refusal to convene it to the persons concerned no later than three (3) days from adopting such decision.

3.3.43. Submission of the following proposals to the General Meeting of Shareholders for approval:

3.3.43.1. Introduction of changes and supplements to the Charter or approval of the revised version of the Charter (except for the cases provided in Article 12 (2)–(6) of the Federal Law “On Joint-Stock Companies”).

3.3.43.2. Reorganization of the Company.

3.3.43.3. Liquidation of the Company, appointment of the Liquidation Commission and approval of intermediate and final liquidation balances.

3.3.43.4. Increase in the Company's authorized capital by means of increasing the nominal share value.

3.3.43.5. Increase in the Company's authorized capital by means of placing shares by closed subscription.

3.3.43.6. Increase in the Company's authorized capital by means of placing shares by open subscription to ordinary shares accounting for over 25 percent of the previously placed ordinary shares.

3.3.43.7. Increase in the Company's authorized capital by means of placing shares by open subscription to ordinary shares in the amount of 25 and less percent of the previously placed ordinary shares in case the Board of Directors fails to reach unanimity on this issue.

3.3.43.8. Increase in the Company's authorized capital by means of placing additional shares within the quantity and categories (types) of authorized shares using Company's assets when placement of additional shares is carried out by means of their purchase by shareholders in case the Board of Directors fails to reach unanimity on this issue.

3.3.43.9. Increase in the Company's authorized capital by way of placing additional preferred shares within the quantity of authorized shares of this category

(type) by means of open subscription if the Board of Directors fails to reach unanimity on this issue.

3.3.43.10. Decrease in the Company's authorized capital by means of decrease in the nominal share value, acquisition of shares by the Company in order to reduce their total quantity, and by means of redeeming acquired and bought out shares of the Company (shares at the Company's disposal).

3.3.43.11. Adoption of decisions on handling the application on delisting of the Company's shares or the Company's equity securities converted to shares.

3.3.43.12. Splitting and consolidation of shares.

3.3.43.13. Consent to or subsequent approval of transactions in the cases provided for in Article 83 of the Federal Law "On Joint-Stock Companies".

3.3.43.14. Consent to or subsequent approval of major transactions in the cases provided for in Article 79 of the Federal Law "On Joint-Stock Companies".

3.3.43.15. Adoption of the decision on membership in financial and industrial groups, associations and other unions of business entities.

3.3.43.16. Adoption of the decision on transfer of powers of the sole executive body of the Company to a business entity (management company) or sole proprietor (manager) under a contract.

3.3.43.17. Approval of internal documents regulating the activity of the Company's bodies.

3.3.43.18. Adoption of the decision on payment of remuneration to the members of the Internal Audit Commission and/or compensation of expenses incurred in the performance of their responsibilities.

3.3.44. Adopting a decision concerning listing of shares of the Company and/or securities of the Company convertible into shares of the Company.

3.3.45. Approval of general policy with regard to risk control and the Company internal audit.

3.3.46. Approval of information policy of the Company.

3.3.47. Approval of the Company's policy for remuneration and/or reimbursement of expenses (compensation) of members of the Board of Directors, executive bodies and other key managerial personnel of the Company.

3.3.48. Approval of the Company's policy with regard to the Board of Directors members' possession of the Company's shares or shares of legal entities under the control of the Company.

3.3.49. Approval of dividend policy of the Company.

3.3.50. Definition of development strategy, examination of significant issues regarding operations of legal entities under the control of the Company and evaluation of operation results of the entities.

3.3.51. Adoption of recommendations in relation to voluntary or obligatory proposal proceeded to the Company.



3.3.52. Approval of transactions on sale of stock (shares) of legal entities under the control of the Company that are significant for the Company with consequent loss of such control after completion of the transactions.

3.3.53. Any other issues set forth in the Federal Law “On Joint-Stock Companies” and the Company’s Charter as well as referred to the competence of the Executive Committee and/or the Chief Executive Officer, accepted by the Board of Directors for consideration.

3.4. The matters within the competence of the Board of Directors may not be referred to executive bodies of the Company for resolution.

#### **4. BOARD OF DIRECTORS AND ITS FORMATION**

4.1. All members of the Board of Directors shall be elected by the General Meeting of Shareholders. The number of members of the Board of Directors shall be determined by resolution of the General Meeting of Shareholders but shall not be less than seven (7) members for the term until the next annual General Meeting of Shareholders. Members of the Board of Directors shall be elected by a cumulative vote. Those nominees who get the most votes shall be deemed elected to the Board of Directors.

If an annual General Meeting of Shareholders is not held within the time-limits set forth in Article 47 (1) of the Federal Law “On Joint-Stock Companies”, the powers of the Board of Directors shall be terminated except for the authority to prepare, convene and hold the annual General Meeting of Shareholders.

In case of expiry of the term of the Board of Directors, and the failure of the annual General Meeting of Shareholders to elect members of the Board of Directors in the number constituting a quorum for holding a meeting of the Board of Directors, the powers of the Board of Directors shall be terminated except for the authority to prepare, convene and hold the General Meeting of Shareholders.

4.2. A member of the Board of Directors may not be a Company shareholder. Only a natural person may be a member of the Board of Directors.

4.3. The composition of the Board of Directors must include persons, each of whom possesses sufficient independence for forming his own position and is capable of making objective judgments, independent of the influence of the executive bodies of the Company, individual groups of shareholders, or other interested persons, and also possesses a sufficient degree of professionalism and experience (the “independent director”). The number of independent directors must amount to no less than one third of the composition of the Board of Directors and must be no less than three:

A member of the Board of Directors may not be an independent director, if he/she is connected with:

- the Company;

- a substantial shareholder of the Company;
- a substantial contractor of the Company;
- a competitor of the Company;
- the state or municipality.

Independence of members of the Board of Directors is identified in accordance with independence criteria for members of the Board of Directors provided in Appendix hereto (the “Criteria”).

4.4. The Board of Directors upon assistance of the HR and Compensations Committee evaluates adherence to the Criteria in relation to nominees for the Board of Directors, and analyzes on a regular basis adherence of independent members of the Board of Directors to the Criteria at least on an annual basis.

4.5. In some exceptional cases, the Board of Directors may upon evaluation recognize any member of the Board of Directors (nominee for the Board of Directors) to be independent even if he/she has any formal criteria of affiliation with the Company, a substantial shareholder of the Company, a counterparty of the Company, a competitor of the Company, the State or municipality, if such affiliation does not affect relevant person’s ability to make independent, objective and honest judgments.

4.6. A member of the Board of Directors elected as an independent director in case of an event resulting in his/her or his/her affiliates’ failure to comply with the Criteria shall announce the loss of independent director’s status within three (3) business upon loss of such status. The Board of Directors shall ensure immediate disclosure of information about any circumstances due to which any member of the Board of Directors is no more independent.

4.7. A member of the Board of Directors may at any time voluntarily resign upon written notification to the Board of Directors indicating the date of resignation.

4.8. The General Meeting of Shareholders may at any time adopt a resolution on early termination of powers of the whole Board of Directors and election of a new Board of Directors.

In case of early termination of powers of the Board of Directors, the powers of the new Board of Directors elected by an extraordinary General Meeting of Shareholders shall continue effective until the next annual General Meeting of Shareholders.

If the number of members of the Board of Directors becomes less than the quorum required by the Charter for its decision-making the Board of Directors must decide to hold an extraordinary General Meeting of Shareholders to elect a new Board of Directors. The remaining members of the Board of Directors have the right to decide only on the convocation of such extraordinary General Meeting of Shareholders.

4.9. Persons elected to the Board of Directors may be re-elected an unlimited number of times.

4.10. The shareholder(s) of the Company holding a total of at least 2 percent of the Company's voting shares may, within no more than 60 days after the end of the reporting year of the Company, nominate candidates to the Board of Directors whose number may not exceed the number of members of the Board of Directors.

For making shareholders' proposals on nominating candidates to the Board of Directors of the Company including self-nomination, the application shall specify the full name, ID data (series and/or number of document, date and place of issue, issuer) of each nominee, year of birth, education (specifying the educational institution graduated), information on positions, including positions with management bodies of other legal entities for the last five (5) years, and contact details. A written consent of the candidates nominated to the Board of Directors shall be attached to the application.

Proposals on nominees shall be submitted in writing to the Chairman of the Board of Directors or Corporate Secretary specifying the name of the shareholder(s) submitting them and the quantity and category (type) of the shares owned. The proposals shall be signed by the shareholder(s) or their representatives.

The shareholder(s) of the Company not registered in the Company's shareholders register may also submit proposals to the agenda of the General Meeting of Shareholders and proposals on nomination of candidates by giving appropriate instructions to a person who takes into account their rights to shares. Such instructions shall be given in accordance with the securities laws of the Russian Federation.

4.11. The Board of Directors of the Company shall review the proposals received and adopt a decision on inclusion of the candidates in the list of nominees for election to the Board of Directors or refusal no later than 65 days from the end of the reporting year.

A motivated decision of the Board of Directors to refuse to include candidates in the nominees' list for election to the Board of Directors shall be sent to the shareholder(s) submitting the proposal no later than 3 (three) days of taking the decision.

If such proposals are received by the Company from persons not registered in the shareholders register of the Company and giving the instruction to a person who keeps records of their rights to shares, such decision of the Board of Directors shall be sent to such persons latest within 3 days upon adoption thereof in accordance with the securities laws of the Russian Federation for the provision of information and materials to persons exercising their rights with respect to securities.

4.12. In case of absence or insufficient number of candidates nominated by shareholders to the Board of Director, the Board of Directors may include candidates in the nominees' list at its option.

## 5. RIGHTS AND DUTIES OF THE MEMBERS OF THE BOARD OF DIRECTORS

5.1. When exercising their rights and performing their duties, the members of the Board of Directors shall act for the benefit of the Company, exercise their rights and perform their duties with respect to the Company reasonably and in good faith.

5.2. Any member of the Board of Directors shall:

- take part in the meetings of the Board of Directors and Board committees, in particular, in discussions of agenda items at meetings of the Board of Directors and voting on such items;
- act within his/her powers in accordance with the goals and objectives of the Board of Directors;
- not disclose and not use for his/her personal benefit or for the benefit of third parties any confidential information and documentation of the Company and legal entities controlled by the Company, including any information constituting official or commercial secrets or insider information (the confidential information);
- send in due time to the Corporate Secretary voting ballots for decision-making of the Board of Directors in case of absentee vote;
- notify in due time the Corporate Secretary on his/her inability to attend a forthcoming meeting of the Board of Directors specifying the reasons;
- inform the Corporate Secretary about the address to which the Board of Directors should send documents addressed to him/her;
- inform the Company, by submitting notification to the Company within ten (10) days from the date of the corresponding operation, on holding of the Company's securities, on operations performed with the Company's securities and on conclusion of contracts representing derivative securities with the Company's securities as underlying asset;
- inform the Board of Directors about proposed transactions in which he/she may be deemed an interested party;
- refrain from any action which will, or may potentially, result in a conflict between their interests and those of the Company, and in case of any conflict, inform the Board of Directors in writing about such conflict;
- inform the Board of Directors of legal entities in the management bodies of which he/she occupies a position and/or is an employee, and/or legal entities to which he/she renders consultation services (services of an appraiser, tax consultant, auditing or accounting services);
- not accept gifts from parties interested in decisions making, as well as not to use any direct or indirect benefit provided by the parties interested (excluding symbolic courtesies in accordance with the generally accepted rules of politeness or souvenirs at official events);

- commit no actions knowingly aimed at causing harm to the Company.

### 5.3. A member of the Board of Directors may:

- participate in taking decisions on issues related to the competence of the Board of Directors and introduce proposals regarding the Company's activities at the meetings of the Board of Directors within the competence determined by the existing laws of the Russian Federation, the Charter and this Regulation. In case of their disagreement with any decision taken he/she may submit his/her dissenting opinion and demand that it should be attached to the minutes;
- receive from the Company's officers in due order additional information required for taking decisions with respect to agenda items of the meeting of the Board of Directors. Officials of the Company shall be liable for failure to submit such information;
- demand to convene a meeting of the Board of Directors;
- receive remuneration and compensation for performing his/her responsibilities under the decision of the General Meeting of Shareholders and pursuant to the procedure set forth by this Regulation;
- at any time voluntarily resign upon written notification to the Chairman of the Board of Directors.

## 6. CHAIRMAN OF THE BOARD OF DIRECTORS

6.1. The Board of Directors is headed by the Chairman.

6.2. The Chairman of the Board of Directors shall organize the effective work of the Board of Directors and its cooperation with other bodies of the Company.

6.3. Chairman of the Board of Directors shall be elected by the members of the Board of Directors from its members by a majority of votes of the total number of the members of the Board of Directors, with the votes of retired members of the Board of Directors disregarded.

6.4. The person performing the functions of the sole executive body of the Company may not simultaneously be Chairman of the Board of Directors.

6.5. The Board of Directors may at any time re-elect its Chairman. The decision shall be adopted by a majority of votes of the total number of the members of the Board of Directors, with the votes of retired members of the Board of Directors disregarded.

6.6. The Chairman of the Board of Directors shall organize its work, convene meetings of the Board of Directors, chair thereat and arrange the minutes thereof.

6.7. In the absence of the Chairman of the Board of Directors, his/her functions shall be performed by a member of the Board of Directors by decision of the Board of Directors.

6.8. The Chairman of the Board of Directors shall ensure efficient operation of the committees of the Board of Directors, in particular take the initiative to nominate members of the Board of Directors for the committees of Board of Directors based on their professional and personal skills and taking into account proposals of the Board of Directors on formation of the committees.

6.9. The Chairman of the Board of Directors shall maintain regular contacts with other bodies and officials of the Company in order to obtain as complete and as accurate information as possible that is necessary for the Board of Directors to take decisions, and take all necessary measures to promptly provide the members of the Board of Directors with information necessary to take decisions on the agenda.

6.10. The Chairman of the Board of Directors may sign:

- employment agreement (contract) with the Chief Executive Officer;
- minutes of meetings of the Board of Directors;
- extracts from the minutes of General Meetings of Shareholders and meetings of the Board of Directors;
- any other documents referred to the competence of the Board of Directors.

## **7. COMMITTEES OF THE BOARD OF DIRECTORS**

7.1. For preliminary review of the most important matters related to the competence of the Board of Directors, and preparation of recommendations to the Board of Directors for taking decisions on such matters, committees shall be established under the Board of Directors.

7.2. The Board of Directors may establish standing or ad hoc (for resolving particular matters) committees as it may deem necessary.

7.3. The number of members and work procedure of the committees shall be set forth in the regulations on respective committees to be approved by the Board of Directors.

## **8. MEETINGS OF THE BOARD OF DIRECTORS**

8.1. Meetings of the Board of Directors shall be held on a regular basis in accordance with a Board Meeting Plan.

8.2. The first meeting of the Board of Directors shall be held latest within one (1) month from the date of the General Meeting of Shareholders that elected the Board of Directors. The indicated meeting may be convened and held by any member of the Board of Directors. The first meeting shall elect the Chairman of the Board of Directors, form its committees, and elect the chairmen and members of the committees.

Subsequently the meetings of the Board of Directors shall be held as needed but at least once every quarter of the year.

8.3. The Board of Directors may hold its meetings in the following forms:

8.3.1. Simultaneous attendance of members of the Board of Directors in a particular place to discuss agenda items and take decisions thereon.

8.3.2. Simultaneous discussion of agenda items and taking decisions thereon using remote access facilities for unified audio-video conferencing ensuring protection against unauthorized access and reliable identification of meeting participants.

8.3.3. Reviewing of agenda items and taking decisions thereon without simultaneous discussion by means of completing ballots in writing (absentee vote).

8.4. Decisions on the matters listed below may be taken by a meeting of the Board of Directors held only in a form stipulated in Subclauses 8.3.1–8.3.2 hereof:

- approval of the prioritized activities and the financial and business plan of the Company;
- preliminary approval of the Company's annual report;
- increase in the Company's authorized capital by means of placing additional shares within the quantity and categories (types) of authorized shares.

8.5. Meetings of the Board of Directors shall be convened by the Chairman of the Board of Directors upon his/her own initiative, upon request of a member of the Company's Board of Directors, Internal Audit Commission or Auditor, Chief Executive Officer of the Company, shareholder(s) holding 10 or more percent of the voting shares of the Company, and a committee of the Board of Directors.

The request to convene a meeting of the Board of Directors should contain the full name of the meeting initiator, proposed agenda, reasons for discussing a particular matter and the form of meeting.

8.6. The agenda of the next meeting of the Board of Directors shall be determined by the Chairman of the Board of Directors jointly with the Chief Executive Officer or by the person(s) at whose initiative the Board of Directors is convened.

If necessary the Board of Directors may invite to its meetings specialists, Company's auditors and members of the Internal Audit Commission.

The Chairman of the Board of Directors may include additional items in the agenda as well as postpone the review of planned items that may not be reviewed for reasons beyond the control of the Board of Directors.

8.7. On the instructions of the Chairman of the Board of Directors, the Corporate Secretary gives notice of a forthcoming meeting shall be to each member of the Board of Directors at least three (3) days prior to the meeting of the Board of Directors.

The notice shall specify the date, time and place, the form of meeting and its agenda. The required documents relating the items on the agenda of the meeting of the Board of Directors shall be attached to the notice.

8.8. The notice of the meeting of the Board of Directors and the documents relating to the items on the agenda of the meeting shall be sent to the members of the Board of Directors by facsimile or electronic communication devices.

The notice of the meeting of the Board of Directors and the documents relating to the items on the agenda of the meeting may not be passed over via other persons, including other members of the Board of Directors.

8.9. In the event that a meeting of the Board of Directors is held by absentee vote, the Corporate Secretary shall circulate the following documents to each member of the Board of Directors:

- agenda of the meeting of the Board of Directors;
- documents relating to the items on the agenda of the meeting of the Board of Directors;
- ballots for absentee vote.

8.10. The meetings of the Board of Directors shall elaborate specific decisions on items on the agenda.

8.11. The meeting of the Board of Directors is quorate (has a quorum) if at least 50 % of the elected members of the Board of Directors take part in the meeting (absentee vote), and the attendance by at least one independent director, except for a quorum on matters to be resolved in accordance with the Federal Law “On Joint-Stock Companies” and the Company’s Charter unanimously, by a majority of three fourths of the votes. The quorum for holding a meeting of the Board of Directors concerning the consent to or subsequent approval of major transactions and interested party transactions is specified in Clause 8.13 hereof.

8.12. Decisions shall be adopted by the meeting of the Board of Directors by a majority of votes of the members of the Board of Directors taking part in the meeting (absentee vote) unless a bigger number of votes is stipulated by the Charter of the Company or the Federal Law “On Joint-Stock Companies” for adopting relevant decisions.

8.13. Decisions on the following matters shall be adopted unanimously by all members of the Board of Directors:

- Increase in the authorized capital of the Company by means of placing additional shares within the quantity and categories (types) of authorized shares using the Company’s assets when placement of additional shares is carried out through their purchase by the shareholders.
- Increase in the Company’s authorized capital by means of placing ordinary shares within the quantity and categories (types) by open subscription in



the amount of 25 and less percent of the previously placed ordinary shares of the Company.

- Increase in the Company's authorized capital by means of placing additional preferred shares within the quantity of authorized shares of this category (type) by open subscription.

- Placement by the Company of bonds convertible into shares and other securities convertible into shares.

- Consent to or subsequent approval of major transactions in the case provided for in Article 79 of the Federal Law "On Joint-Stock Companies".

If no unanimity of the Board of Directors is reached with respect to the above matters, the matters may be resolved by General Meeting of Shareholders.

Decisions on issues stated in Clause 3.3, Subclauses 3.3.1, 3.3.15, 3.3.21, 3.3.31-3.3.32, 3.3.43.1-3.3.43.11, 3.3.44, 3.3.49-3.3.52 hereof shall be taken by the majority of votes of all elected members of the Board of Directors.

Interested party transaction requires mandatory prior consent.

The decision concerning the consent to or subsequent approval of an interested party transaction shall be adopted by the Board of Directors by a majority of the votes of the directors who are not interested in it, who are not and have not been within one year preceding such decision:

- the Chief Executive Officer – Chairman of the Executive Committee, member of the Executive Committee of the Company;

- the person controlling the Company or entitled to give mandatory instructions to the Company.

If the number of directors not interested in the transaction and meeting the requirements established by this paragraph hereof becomes less than two directors (a quorum for holding a meeting of the Board of Directors on this issue), such transaction shall require the consent of the General Meeting of Shareholders.

8.14. For approval of the terms and conditions of contract with the Chief Executive Officer (management entity/manager) and members of the Executive Board, the votes cast by members of the Board of Directors who are Chief Executive Officer and members of the Executive Board shall not be taken into account.

8.15. Each member of the Board of Directors shall have one vote at the meeting of the Board of Directors.

Vote transfer by a member of the Board of Directors to another person, including another member of the Board of Directors shall not be allowed.

In case the number of votes of the members of the Board of Directors is equal, the Chairman of the Board of Directors shall have a decisive vote.

8.16. For determining the quorum and voting results with respect to items on the agenda, a written opinion of the member of the Board of Directors absent from the Meeting of the Board of Directors shall be considered for the meetings held in the forms specified in Subclauses 8.3.1, 8.3.2 hereof.

8.17. A written opinion of the member of the Board of Directors shall be submitted to the Chairman of the Board of Directors before the meeting of the Board of Directors, e.g. by means of telephone or electronic communication. The written opinion of a Board Member may contain his/her voting both on all items on the agenda and particular items. The written opinion of a member of the Board of Directors shall be considered only for determining the quorum and the voting results with respect to agenda items voted by the member of the Board of Directors.

If a copy of the written opinion of a member of the Board of Directors was not included in the information (materials) distributed to the members of the Board of Directors prior to the meeting, the Chairman of the Meeting shall announce the written opinion of the member of the Board of Directors absent from the meeting of the Board of Directors before voting on the agenda items regarding which the opinion was submitted.

In case the member of the Board of Directors is attending the meeting of the Board of Directors, his/her written opinion received prior to the meeting shall not be announced and considered for determining the quorum and the voting results.

8.18. The decisions of the Board of Directors made within its competence shall be binding on the executive bodies and officials of the Company.

8.19. The minutes of the meeting of the Board of Directors shall be prepared no later than within three (3) days after the meeting.

The minutes of the meeting shall specify: venue and time of the meeting; persons attending the meeting; meeting agenda; items put to vote and voting results; decisions taken.

The minutes shall be signed by Chairman of the Board of Directors or the meeting chair elected by a simple majority of the votes of the members of the Board of Directors attending the meeting, and two members of the Board of Directors, named by the Chairman of the Board of Directors.

8.20. Minutes shall be numbered consecutively from the beginning of the reporting year.

Completed and signed minutes shall be kept at the premises of the CEO.

8.21. The Chief Executive Officer shall provide for the necessary conditions for the performance by the Board of Directors of its functions, including providing premises with modern communication devices, access to copying, reproduction and computer equipment.

## **9. LIABILITY OF THE MEMBERS OF THE BOARD OF DIRECTORS**

9.1. When exercising their rights and performing their duties, the members of the Board of Directors shall act for the benefit of the Company, exercise their rights and perform their duties with respect to the Company reasonably and in good faith.

9.2. The members of the Board of Directors of the Company shall be held liable:

- to the Company for damages caused by the Company by their guilty actions (inactivity) unless other grounds and liability amount are established by federal laws;
- to the Company or shareholders for damages caused by their guilty actions (inactivity) violating the Company's share acquisition procedure established by the Federal Law "On Joint-Stock Companies".

However, no liability shall be incurred by the Members of the Board of Directors who voted against a decision that resulted in damages upon the Company, or those who did not take part in the vote.

9.3. Members of the Board of Directors shall be liable to the Company or shareholders for damages caused to the Company as a result of disclosing or using for personal interest or third parties' interest the confidential information of the Company. The list of the confidential information shall be identified by internal documents of the Company to be read, understood and signed by the Members of the Board of Directors. Each member of the Board of Directors must sign an agreement with the Company not to disclose confidential information that he/she becomes aware of in connection with the performance of functions of the member of the Board of Directors.

## **10. REMUNERATIONS AND COMPENSATIONS FOR THE MEMBERS OF THE BOARD OF DIRECTORS**

10.1. In accordance with the decision of the General Meeting of Shareholders, members of the Board of Directors, for the period of performing their duties, may be remunerated and/or compensated for expenses associated with performing duties of members of the Board of Directors. Amounts of these rewards and compensations shall be established by the decision of the General Meeting of Shareholders.

10.2. During the period of performing their duties the members of the Board of Directors shall be compensated for their expenses documented in accordance with the laws of the Russian Federation and related to the performance of Board members' functions. The expenses to be compensated include documented expenses for payment of air and railway tickets purchased for the member of the Board of Directors regardless of the travel class, and other expenses for traveling to the destination and back; representative expenses; accommodation costs; airport fees, commissions, costs of transfer to the airport or railway station at places of departure, destination or transfer.

10.3. The remuneration of a member of the Board of Directors and remuneration conditions shall be set forth in an agreement to be concluded

between the Company and the member of the Board of Directors in accordance with the decision of the General Meeting of Shareholders.

10.4. In case of early termination of powers of the members of the Board of Directors the amount of remuneration due shall be determined proportionally to the actual time of performance of their duties.

10.5. The compensations shall be payable within ten (10) days from the submission of the application for compensation payment and all the required supporting documents.

10.6. The General Meeting of Shareholders may consider the payment of remunerations and compensations to members of the Board of Directors for performing their duties as a separate item on the agenda of the General Meeting of Shareholders or as part of the item on profit distribution based on the results of the reporting year.

## **11. FINAL PROVISIONS**

11.1. This Regulation on the Board of Directors as well as any and all addenda and amendments hereto shall be approved by the General Meeting of Shareholders.

11.2. Proposals on amendments and supplements hereto shall be made in the manner set forth in the Charter for including proposals in the agenda of an annual or extraordinary General Meeting of Shareholders.

Appendix  
to the Regulation on the  
Board of Directors  
of PJSC LSR Group

**INDEPENDENCE CRITERIA FOR MEMBERS OF THE BOARD OF  
DIRECTORS OF PJSC LSR GROUP**

This Regulation establishes the independence criteria for members of the Board of Directors, including, without limitation, affiliation criteria and essence thereof.

1. A substantial shareholder of the Company is a person who has a direct or indirect right (through persons under his control), independently or together with other persons, connected with him/her by an agreement for confidential management of the property, and/or ordinary partnership, and/or instruction, and/or shareholder agreement, and/or any other agreement, the subject of which is the exercise of the rights certified by the shares in the Company, to dispose of 5 or more percent of votes attributable to voting shares constituting the authorized capital of the Company.

A group of companies that includes such substantial shareholder of the Company means legal entities controlled by the substantial shareholder of the Company and / or legal entities controlled by a person controlling the substantial shareholder (including the substantial shareholder and/or a person controlling the substantial shareholder).

2. A substantial contractor of the Company is a person who is a party to a contract (contracts) with the Company, the scope of obligations pursuant to which at the present time or the scope of obligations met pursuant to which during the last year amount(s/ed) to 2 or more percent of the carrying amount of the consolidated assets of the Company or of this person on the reporting date, preceding the moment of evaluation of the significance of the contractor, or 2 or more percent of the consolidated revenue (proceeds) of the Company or of this person for the completed calendar year, preceding the moment of evaluation of the substantiality of the contractor. If the contractor does not have a consolidated financial report, the contractor's accounting report can be used for comparison.

3. Affiliates of a physical person are: spouse, parents, children, adopters, adoptees, full or half brothers and sisters, grandmothers and grandfathers, and any other persons living together with the particular physical person and keeping a common household with him/her.

4. A person affiliated with the Company must be considered as such if he/she and/or his/her affiliates:

1) are or in the course of the last 3 years were members of executive bodies or employees of the Company, an organization under the control of the Company and/or management entity of the Company;

2) are members of boards of directors of a legal entity controlled by the Company or a controlled entity or managing entity of such legal entity;

3) received remuneration and/or other material benefits from the Company and/or organizations under its control during any of the last 3 years in an amount exceeding half of the amount of the base (fixed) annual remuneration of a member of the Board of Directors\*;

4) are the owners or beneficiaries of the Company's\*\* shares representing more than 1 percent of the authorized capital or the total number of voting shares of the Company or market value of which is more than 20 times higher than the fixed annual remuneration of the member of the Board of Directors;

5) are members of executive bodies and/or employees of a legal person, the remuneration of which is determined (considered) by a remunerations committee of the board of directors of this legal person, if any member of the executive bodies and/or employee of the Company is included in the composition of the committed for compensations of the indicated legal person;

6) renders consultation services to the Company, a person controlling the Company, or legal persons under the control of the Company, or are members of management and/or executive bodies of organizations rendering such services to the Company or to the indicated legal persons, or employees of such organizations, directly participating in rendering such services;

7) renders or rendered to the Company or legal entities controlled by the Company within the last 3 years services in the field of evaluation, tax advice, auditing or accounting, or were members of management and/or executive bodies of organizations rendering such services to the indicated legal persons, or of a rating agency of the Company, or were employees of such organizations or a rating

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\*The actual income received from the Company and/or organizations under its control during any of the last 3 years is compared with the level of the base (fixed) remuneration to be paid to independent directors at the time of evaluating the independence pursuant to the policy of remuneration of members of the Board of Directors of the Company. If there is no remuneration policy or it is inaccessible, the base (fixed) remuneration actually approved for such directors pursuant to the results of the last annual general meeting of shareholders is used as an evaluation of the expected base (fixed) remuneration of a director. Payments and/or compensations, which the indicated persons received as remunerations and/or reimbursement of expenses for performance of the duties of a member of the Board of Directors of the Company and/or an organization under his control, including those connected with the insurance of their responsibility as members of the Board of Directors, and income and other payments received by the indicated persons for securities of the Company and/or an organization under its control, are not considered in the analysis of material benefits.

\*\* A natural person who, by virtue of his/her stake in the Company, on a contractual basis or otherwise, stands to economic benefit from owning shares and/or managing votes falling on shares representing the authorized capital of the Company, shall be recognized as beneficiary of the Company's shares.

agency, that directly participated in the provision of specified services to the Company within the last three years.

A person who used to occupy the position of a member of the Board of Directors of the company for a total of more than 7 years shall also be recognized as a person affiliated with the Company. When calculating the corresponding period, it is necessary to take account of the period of membership of the director in the board of directors of a legal person, subsequently reorganized, if this director has now been elected to the board of directors of the legal successor.

Provided however that for the purposes of identification of independence of a candidate (elected member of the Board of Directors), a candidate (elected member of the Board of Directors) who held the position of a member of the Board of Directors in aggregate for seven (7) to twelve (12) years may be renounced the Company's affiliate status should the Board of Directors deliver relevant decision.

5. Any person shall be recognized as a person affiliated with the substantial shareholder of the Company if he/she and/or his/her affiliate, in particular:

1) is an employee and/or member of executive bodies of a substantial shareholder of the Company (legal entity entering a group of companies the substantial shareholder of the Company is a member to);

2) within the last 3 years, received remuneration and/or any other financial benefits from a substantial shareholder of the Company (legal entity entering a group of companies the substantial shareholder of the Company is a member to) in an amount exceeding one half of the amount of the basic (fixed) annual remuneration of a member of the Board of Directors;

3) are members of the board of directors of two or more legal entities controlled by the substantial shareholder of the Company or a person controlling the substantial shareholder of the Company.

6. Any person shall be recognized as a person affiliated with the substantial contractor or competitor of the Company if he/she and/or his/her affiliate, in particular:

1) is an employee and/or member of management and/or executive bodies of the substantial contractor or competitor of the Company, or legal entities

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Payments and/or compensation that the indicated persons received as remuneration and/or reimbursement of expenses for performance of the duties of a member of the board of directors of the Company (committee of the board of directors) of a substantial shareholder of the Company (legal entity entering a group of companies the substantial shareholder of the Company is a member to), including those connected with the insurance of their responsibility as members of the board of directors, and income and other payments received by the indicated persons for securities of the substantial shareholder of the Company (legal entity entering a group of companies the substantial shareholder of the Company is a member to) are not considered in the analysis of material benefits.

controlling the substantial contractor or competitor of the Company or entities under its control;

2) is an owner of shares (portions) or a beneficiary for shares (portions) of a substantial contractor or competitor of the Company, that amount to more than 5 percent of the authorized capital or total amount of voting shares (portions).

7. Any person shall be recognized as a person affiliated with the state or municipality if he/she and/or his/her affiliate, in particular:

1) is or was for 1 year preceding election to the Board of Directors, a state or municipal official or incumbent or employee of the Bank of Russia;

2) is a representative of the Russian Federation, a constituent entity of the Russian Federation, or municipal entity in the board of directors of company in relation to which a decision is made concerning the use of a special right to participate in management (“gold share”);

3) has an obligation to vote on one or more questions of the competence of the Board of Directors in accordance with a directive of the Russian Federation, a constituent entity of the Russian Federation, or a municipal entity;

4) is or was for 1 year preceding election to the Board of Directors, an employee, member of an executive body of an organization under the control of the Russian Federation, constituent entity of the Russian Federation, or a municipal entity, an employee of a state or municipal unitary enterprise or institution (other than employees of state or municipal educational or scientific institutions performing educational or scientific activities and are not persons appointed (approved) to the position of a sole executive body or any other position in a state or municipal educational or scientific institution by a decision or with the consent of public (municipal) authorities), if such person is nominated for the Board of Directors, in which more than 20 percent of the authorized capital or voting shares of the Company are under the control of the Russian Federation, constituent entity of the Russian Federation, or a municipal entity.