

# **AZERBAIJAN CORPORATE GOVERNANCE STANDARDS**

**2011**

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## INTRODUCTION

According to OECD Corporate Governance Principles corporate governance embraces relations between company management, directors and stakeholders. Therefore, corporate governance implicates governance processes in joint stock companies with the protection of shareholders (participants) interests, norms regulating these processes, as well as structures and persons involved in these processes.

The implementation of corporate governance principles enables the establishment of governance practices in joint stock companies in compliance with international standards and increases their operational efficiency.

With the purpose of implementing corporate governance practices in Azerbaijani joint stock companies the Task Force, comprised of representatives of Azerbaijani governmental authorities and IFC, worked jointly to prepare the Azerbaijan Corporate Governance Standards (hereinafter the Standards).

The provisions of the Standards are not legally binding and are voluntary.

Therefore, the Standards represent the recommendations based on ethical norms. In future, it would be advisable to implement the standards on “comply or explain” principle. It means that companies should comply with the Standards, yet if they do not, the company must explain and disclose the reasons for non-compliance.

The Standards present the most important rules, which the companies should follow in regard to the establishment and functioning of supervisory and executive boards, rights of shareholders, including practical rules ensuring transparency of the activity. They also take into account the requirements concerning internal control and risk management with respect to the establishment of reliable and transparent reporting system.

The purpose of the Standards is to help companies implement good corporate governance mechanisms by achieving balance between the Azerbaijani and the international corporate governance practices. As a result, the Standards attempt to strengthen the competitiveness of joint-stock companies in any economic area and to make them more attractive to investors.

The Standards are prepared in compliance with Principles of Corporate Governance of the Organization for Economic Cooperation and Development.

Some provisions of the Standards have already been reflected in the Azerbaijani legislation. However, the legislation determines only basic governance rules for all joint-stock companies, and therefore, cannot regulate the governance specifics of any particular company. Moreover, the legislation is not flexible in reflecting/regulating the changes occurring in corporate governance area. Therefore the companies shall have governance standards based on international practices and norms that would comply with its structures and operations, as well as technological processes and transaction specifics.

At the same time, the Standards help to implement best practices in corporate governance issues unregulated by legislation.

This in turn will help to identify and remove obstacles in the area of introduction of corporate governance as a whole, bring corporate governance of Azerbaijani companies in compliance with Corporate Governance Principles of the Organization for Economic Cooperation and Development.

The provisions of the present Standards shall be regularly reviewed and improved from the viewpoint of economic relations development and joint stock companies' governance priorities.

## **CHAPTER 1. THE GENERAL MEETING OF SHAREHOLDERS (PARTICIPANTS)**

### **1. POWERS OF THE GENERAL MEETING OF SHAREHOLDERS (PARTICIPANTS)**

- 1.1. The General Meeting of Shareholders (hereinafter GMS) is the supreme governing body of a joint stock company. GMS is the main form of exercising governing powers for the shareholders of the company.
- 1.2. GMS provides the shareholders with the following opportunities:
  - Adopting decisions on the company's operation;
  - Receiving information on the company's operation;
  - Participating in distribution of the company's profit;
  - Controlling the agreements signed by the company.
- 1.3. The following issues shall be vested with the GMS and included in the company charter along with the authorities of the GMS determined by the legislation for the exercise of ownership functions on behalf of shareholders:
  - Adopting decisions on the issue of the company securities;
  - Appointing the company's external auditor, signing the related agreements or approving the signed agreements;
  - Determining the value of non-monetary contributions to charter capital;
  - Establishing Supervisory Board members evaluation system;
  - Adopting decisions on the participation of the company in funds, public unions, legal entity associations;
  - Adopting decisions on the establishment of the company subsidiaries;
  - Approving remuneration system for the Supervisory Board members, internal audit function and management of the company;
  - Approving the rules of conducting related party transactions;
  - Approving the By-law of Supervisory Board.
- 1.4. The company should draw up and adopt a By-law on the General Meeting of Shareholders to clarify issues regarding the activity of GMS and bring them to the notice of shareholders. The by-law shall contain the list of GMS powers, the rules of preparing for, calling, convening and taking decisions at GMS.

### **2. PREPARING FOR GMS**

- 2.1. Preparing for GMS is crucial for holding the meeting in compliance with legislation and shareholders interests. The following are important for the satisfaction of the above mentioned requirements:
  - Determining a precise list of shareholders (nominal holders);
  - Providing timely information to shareholders (nominal holders);
  - Enabling shareholders to study the issues to be discussed at GMS.
- 2.2. The Supervisory Board or executive body shall undertake the following actions in this regard:
  - Prepare and approve the agenda of GMS;

- Define the date, time and venue of GMS;
  - Compile a list of persons eligible to participate at GMS based upon the shareholders' register;
  - Set forth procedures of sending notices to shareholders with regard to the upcoming meeting;
  - Compile a list of documents and materials to be sent to shareholders with respect to items included into the agenda;
  - Draw up ballot-papers (voting bulletins) containing the items of the agenda;
  - Provide shareholders and other participants with notices, documents and other materials.
- 2.3. The issues to be discussed at GMS should be clearly defined in the agenda. The agenda should not contain the words of indefinite nature such as "other", "etc.", "different/various".
- 2.4. The issues to be discussed at GMS should be clearly defined in the agenda.
- 2.5. The shareholders should be provided with the detailed information about the issues to be discussed at GMS and they should be provided with the opportunity to familiarize with these issues. For this purpose, the notices to be sent to shareholders should include the agenda and all other documents and materials with respect to items of the agenda along with the information about the methods of getting familiar with these materials (for example, the company's website).
- 2.6. The timely provision of shareholders with the notices enables them to get better prepared to GMS. Therefore, the notices should be sent by registered mail or with the company employees.
- 2.7. The shareholders owning at least 5 (five) percent of company's voting shares should be provided with the opportunity to include additional items in the agenda of GMS. The shareholders owning less than 5 (five) percent of company's voting shares should be provided with the opportunity to propose additional items to the agenda of GMS.
- 2.8. The deadline for making such proposals, procedures for considering them and including into the agenda should be determined in the By-laws on the General Meeting of Shareholders. When determining the deadline for submitting the proposals, the time for shareholders to familiarize with the final version of the agenda should be considered. Moreover, shareholders should be provided with the opportunity to study the final draft of the agenda.

### **3. CONDUCTING THE GMS**

- 3.1 The GMS should be held at a time and place that are the most convenient for shareholders. The GMS can be held on weekends in order not to draw shareholders away from their work places.
- 3.2 The GMS should be held not earlier than 10 a.m. and not later than 8 p.m.
- 3.3. The organization of the GMS should be carried out by the Supervisory Board (hereinafter Meeting organizer). The chair of GMS, its secretary and Counting Commission (counter) should be appointed by the Supervisory Board.
- 3.4. The GMS starts with announcement of the agenda by the chairperson. The participation of shareholders and invited persons, as well as quorum should be verified. Then discussions on the items included in the agenda begin.

- 3.5. The chairperson should secure a discipline at the GMS, provide participants with the opportunity to deliver a speech, and not interrupt them unnecessarily. The chairperson should also resolve all the organizational issues that may arise during the GMS.
- 3.6. The speeches are delivered on each issue included in the agenda of GMS by the appointed speaker. The time limitations should be set for the speeches and questions of shareholders on the discussed issue. Thereafter the issue should be put to voting.

#### **4. ADOPTING RESOLUTIONS AT THE GMS**

- 4.1. The content of adopted resolutions shall be clear to shareholders. Therefore the issue voted upon shall be defined unambiguously, creating no conditions for various interpretations and misunderstandings.
- 4.2. The shareholders (their representatives) shall express their opinion by words “pro”, “contra” and “abstained”. The opinion can be expressed by raising hands, by writing “pro”, “contra” or “abstained” on the board (paper) and raising it, or by filling out the ballot-papers.
- 4.3. The results of voting shall be determined by the counting commission (counter).
- 4.4. Each ballot-paper shall contain the following information:
  - Name and address of the company;
  - Date, time and venue of the meeting;
  - Agenda of the meeting;
  - Voting choices for each item of the agenda specified as “pro”, “contra” and “abstained”.
- 4.5. The shareholders shall express their opinion by underlining one of the words “pro”, “contra” and “abstained”.
- 4.6. The resolutions on the issues not included in the agenda of GMS may not be adopted. Therefore, in order to provide the shareholders with an opportunity to express their opinion on each item included in the agenda of GMS, the chairperson shall ensure that these items are put to voting in the context and order as reflected in the agenda. The issues shall be voted upon separately. Voting on two or more issues simultaneously is prohibited.
- 4.7. Information on resolutions of the GMS should be timely disclosed to all shareholders of the company.
- 4.8. In cases determined by the company charter the shareholders shall be able to vote in absentia via written document by clearly and unambiguously expressing their opinion upon the items included in the agenda of GMS (pro, contra, abstained) and attesting it with their signature. The rules of absentee voting shall be defined in the charter, respective by-law or internal documents of the company.

#### **5. MINUTES OF THE GMS**

- 5.1. Not later than 3 (three) working days upon conduct of the GMS the minutes of the meeting should be drawn up in two originals, sealed and signed by the chairman and secretary of the meeting.
- 5.2. A copy of the minutes should be sent to shareholders at their written request within 5 (five) working days as of receipt of such request.

## **CHAPTER 2. SHAREHOLDERS' RIGHTS**

Although the shareholders form the charter capital of the company with their respective property, they stay aside of the company's daily management.

Therefore the shareholders shall have the rights with respect to control of the company's activity and significant decision making that have to be reflected in the company's charter. This shall include the rights to:

- Adopt decisions on the company's operation;
- Receive information about the company's activity;
- Participate in distribution of the company's profit;
- Control the transactions of the company within its economic activity.
- Receive residual value at liquidation of the company.

In this regard, the shareholders of the company shall have at least the following rights.

### **1. A RIGHT TO RECEIVE DIVIDENDS**

- 1.1. The company should develop and implement a fair and consistent dividend policy for shareholders.
- 1.2. The transparency of procedures for determining the dividends is important for the proper implementation of dividend policy. For this, the company shall disclose quarterly and annual results to shareholders and provide them with an access to financial-accounting documents.
- 1.3. The dividends shall be paid at the earliest possible time (not later than two months) after the adoption of the respective decision.

### **2. A RIGHT TO PARTICIPATE AT THE GMS**

A Supervisory Board of the company should be responsible for due convocation and conduct of annual and extraordinary General Meetings of Shareholders. Shareholders should be provided with an opportunity to impact on actual governance of the company by means of attending the regular general meetings, and executing their decision-making rights with regard to any critical issues of the company's activity.

### **3. EQUAL VOTING RIGHTS**

The company should refrain from taking any corporate actions, which may result in limitation of the voting rights of its shareholders. Holders of preferred shares should be granted voting rights when voted issues concern the reorganization or liquidation of the Company, or limitation of their rights.

### **4. A RIGHT TO ELECT AND BE ELECTED**

- 4.1. The Company shall ensure transparent procedures of proposing and electing candidates to its governing bodies. Shareholders should be timely provided with the accurate information about such candidates, their affiliation with the other shareholders and the company, including members of its supervisory board and executive bodies.

- 4.2. The shareholders shall also be provided with an opportunity to be elected to the company's governing bodies. Shareholders should also be ensured that their own candidacy proposed to the company bodies will be met with all due respect and fairly considered in the election process.

## **5. A RIGHT TO OBTAIN INFORMATION**

- 5.1. The company should ensure that timely disclosure is made to shareholders on any material issues concerning the company's activity. The information to be duly and accurately disclosed should include the company's annual reports, its financial condition and performance in the market, any material risks, and other information that may be of utmost importance for the operation of the company. The information should be timely released to shareholders.
- 5.2. A Management of the company should ensure the due conduct of the shareholders' register. The register should be disclosed by the Management to shareholders at their request at least once a year.
- 5.3. The company should control the use of information, which is regarded as confidential or insider information in accordance with the legislation of the Republic of Azerbaijan and business culture.

## **6. A RIGHT TO REQUEST REDEMPTION OF SHARES**

- 6.1. The company charter should provide shareholders with a right to request redemption of their shares by the company in case if they didn't participate in the General Meeting of Shareholders or participated in such meeting and voted against resolutions adopted by the General Meeting on any material issues, which may have a serious impact on the company's activity or shareholders' rights. Such material issues should be explicitly specified in the charter and include, but not be limited to:
  - reorganization of the company (including transfer from open to closed type and vice versa);
  - change of the main activity of the company;
  - limitation of shareholders' rights.
- 6.2. Redeemed shares shall not grant voting and dividend rights unless repurchased by investors or other shareholders.

The redemption of shares shall be guaranteed by the charter or internal documents of the company.

## **7. PREEMPTIVE RIGHT IN PURCHASE OF NEWLY ISSUED SHARES**

The company charter should provide for a preemptive right of shareholders to purchase newly issued shares *pro rata* to their shareholding. The share purchase price for shareholders in such case should not be less favorable than that proposed to third parties.

## **8. A RIGHT TO REQUEST EXAMINATION OF THE COMPANY'S ACTIVITY**

- 8.1. The company shall establish the mechanisms for the regular examination of its activity.
- 8.2. Shareholders, owning at least 10% the company shares should be provided with a right to request extraordinary examinations of the company's activity by its external auditors, internal audit function and other internal control units.

## **9. A RIGHT TO RECEIVE RESIDUAL VALUE AT LIQUIDATION**

Shareholders should meet fair treatment during a liquidation process of the company. The company's liquidation commission should procure that all assets left upon settlement of the company debts and obligations are accurately distributed among shareholders proportionately to their shareholding as of the time of such liquidation.

## **CHAPTER 3. SUPERVISORY BOARD**

### **1. DUTIES (ROLES AND RESPONSIBILITIES) OF THE SUPERVISORY BOARD**

- 1.1. The Supervisory Board shall be established for the effective guidance and control over the company's activities.
- 1.2. The Supervisory Board should fulfill its duties with regard to protection of shareholders investments, multiplication of their shareholdings, including decision-making in the company's best interests, supervision of the company, as well as strategy and policy setting. The supervisory board should focus on oversight of the work of executive bodies, strategic guidance and direction to the management team, especially in the areas of internal control and risk management, strategic planning, regulatory compliance, major transactions and acquisitions, as well as oversight of transactions with related parties.

### **2. COMPETENCE AND STRUCTURE OF THE SUPERVISORY BOARD**

- 2.1. The Supervisory Board shall be established in the form that enables the effective governance and control over the company's activity. The supervisory board should be comprised of competent individuals with adequate experience and qualifications, in particular, in the areas of law, finance, audit and accounting as well as other individuals who could contribute to the achievement of companies' objectives.
- 2.2. Supervisory boards should have an odd number of directors. The number of Supervisory board members should be favorable for the effective operation of the Board and optimal decision making based on comprehensive and quick assessment of the situation.
- 2.3. The supervisory board should have independent members. A member of the supervisory board is considered independent if he/she:
  - a) has not been employed by the company or its related parties (affiliates) in the past 5 (five) years;
  - b) is not, and is not affiliated with, a company that is an advisor or consultant to the company or its related parties;
  - c) is not affiliated with a significant counterparty (customer or supplier) of the company or its related parties;
  - d) has no personal service contracts with the company or its related parties;
  - e) is not affiliated with a non-profit organization that receives significant funding from the company or its related parties;
  - f) is not employed as an executive of competing company;
  - g) is not a close relative of Supervisory Board member, executive body member, external auditor or related party of the company;
  - h) is not, nor his/her close relative is a shareholder of the company or its related party.
- 2.4. The chairperson of the Supervisory Board is preferably to be elected of independent members of the board.
- 2.5. The number of independent directors shall be in such a proportion to other members of the board that would enable them to influence the decision making in the company.

- 2.6. The requirements towards the professionalism, competency and experience of Supervisory Board members shall be determined in the company's charter and a by-law on the Supervisory Board.

### **3. DUTIES OF DIRECTORS (MEMBERS OF SUPERVISORY BOARD)**

- 3.1. Directors owe fiduciary duties such to act in the best interest of shareholders, protect their investments and increase profitability, as well as duty of care and duty of loyalty to the company and its shareholders. In particular, the members of the Supervisory Board shall comply with the following requirements when exercising their authorities:
- a) Perform their duties established by law, company charter and other documents in good faith and in the best interest of the company as a whole;
  - b) Exercise powers granted to them by law, company charter and other documents only for the purposes established therein (Do not misuse powers granted to them by law, company charter and other documents);
  - c) Actively participate in overseeing the activities of the company, in discussions of respective bodies and make adequate efforts to obtain the information with regard to the discussed matters. Directors are expected to have reviewed all materials distributed to the members of the board prior to board meetings, giving special attention to financial statements and any matters to be acted on (such as minutes or proposals).
  - d) Do not be satisfied with the information provided by the company, make independent researches and analysis, invite external experts;
  - e) Avoid actual and potential conflicts between personal interests and those of the company. In case of a conflict of interest between the company and the director, such director must not allow personal interests to prevail over the interests of the company and never use his/her corporate position to make a personal profit or to gain other personal advantage. In addition, the members of the Supervisory Board have a duty to present any business opportunities which are relevant to the company's present or prospective business activities to the board before pursuing the matter on his or her own behalf or for others.

- f) Treat all available information of the company with strict confidentiality until this information has been publicly disclosed.
  - g) Exercise reasonable care and skill in the performance of his/her functions.
- 3.2. Each member of the Supervisory Board should be furnished with sufficient information regarding every important matter requiring board action in a timely fashion to permit an informed judgment.
- 3.3. To ensure the performance of duties stipulated in item 3.1 of the present Chapter a company may impose these duties on its directors by including relevant provisions in the agreements with directors or by adopting internal standards of conduct of supervisory board members.

#### **4. ELECTION AND REMOVAL OF THE SUPERVISORY BOARD MEMBERS**

- 4.1. Procedures for the appointment to the supervisory board should be transparent. Shareholders should be provided with an opportunity to nominate candidates for the board vacancies. Election should be carried out by cumulative voting to enable minority shareholders to appoint supervisory board members.
- 4.2. The members of the supervisory board shall preferably be appointed for one 3 (three) years with the right to a subsequent reelection.

#### **5. COMMITTEES OF THE SUPERVISORY BOARD**

- 5.1. In accordance with international best practices, companies can establish committees of the supervisory board in order to enhance the efficiency of corporate governance. These committees, as a rule, perform specific tasks and prepare proposals to support the decision-making process. Depending on the company's nature, these committees can perform other functions as well.
- 5.2. Such committees should be made up of at least three members who hold the professional skills and experience required to discharge their duties.
- Companies could establish the following committees:
- an audit committee;
  - a nomination and remuneration committee;
  - a risk management committee (the functions of this committee can be vested with the audit committee).
- 5.3. At a minimum, companies should establish an audit committee. An audit committee monitors the operation of the internal control system and the internal audit activities. Additionally, financial reporting, external audit, accounting and legal compliance of the company are also in the competence of this committee.
- 5.4. A chairperson of the audit committee should preferably be an independent director.
- 5.5. The members of the committees can be persons other than the Supervisory Board members. However, such members shall not be in majority at these committees.

## **6. REMUNERATION OF THE SUPERVISORY BOARD MEMBERS**

6.1. Remuneration is a tool for stimulating the supervisory board members' activity, and encouraging them to fulfill their responsibilities in good faith and in the best interest of the company. The company should also consider incentives for its supervisory board members and adopt a policy regulating compensation paid to directors.

Compensation could be based upon incentives, including, but not limited to:

- a flat established fee;
- a fee based upon number of meetings attended;
- a fee for chairing a committee; and/or
- a fee for chairing the supervisory board;
- one-time fee based on the company's annual results (bonus);
- a fee for participating in a committee;

Other incentives may also be taken as a basis for remuneration depending on the nature of the company and other conditions.

6.2. The company should have a supervisory board evaluation system.

## **7. (SUPERVISORY BOARD MEMBERS') CONFLICTS OF INTERESTS AND RELATED PARTY TRANSACTIONS**

7.1. Companies should have adequate policies to deal with conflicts of interests and related party transactions. In addition, the Supervisory Board members Code of Conduct shall be adopted.

7.2. A conflict of interests arises when the Supervisory Board member's personal or financial interests conflict or appear to conflict with their duties and responsibilities to act in the best interests of the company. Such interest or relationship can make it difficult for an individual to fulfill his or her duties fairly.

7.3. Supervisory board members involved in any actual or potential conflict of interest or related party transaction should inform about it the chairperson of the Supervisory Board prior to the meeting, and refrain from voting on resolutions to approve them or from influencing the decision of other members. Significant conflicts of interest or related party transactions that have been approved by the supervisory board should be disclosed to the shareholders and the public.

## **CHAPTER 4. EXECUTIVE BODY**

### **1. AUTHORITIES OF THE EXECUTIVE BODY**

1.1. The Executive body manages the daily operation of the company. For the absolute and profound guidance over the company's day-to-day activity, companies should have a collegiate executive body – Management Board.

1.2. The authority of the Management Board includes all issues related to the day-to-day management of the company's activities except for those issues that fall within the

authority of the GMS and the supervisory board. The companies should specify the authorities of the Management Board in the by-laws of this body.

## **2. REMUNERATION OF EXECUTIVE BODY MEMBERS'**

- 2.1. The type, amount and payment mechanism of the remuneration which the management members receive from the company for their work shall be such that qualified managers can be recruited and retained. Furthermore, the remuneration packages should align the interests of managers with interests of shareholders. The companies should introduce management evaluation and compensation system for its executives.
- 2.2. Management compensation (wages, bonuses, stocks) should be determined in a way to encourage long-term strategic thinking (approach). This system should be reflected in the by-laws of company. The Management Board evaluation system should be introduced by the Supervisory Board of the company.

## **3. (EXECUTIVE BODY MEMBERS') CONFLICTS OF INTERESTS AND RELATED PARTY TRANSACTIONS**

- 3.1. Similar to Supervisory Board, when there is a potential conflict of interest, the relevant party should inform the GMS and Supervisory Board about potential conflict of interest and recuse himself/herself from the meeting and from voting on the matter.
- 3.2. Executive members involved in any actual or potential conflict of interest or related party transaction should inform about it the head of the executive body and refrain from voting on resolutions to approve them or from influencing the decision of other members.
- 3.3. The General Meeting of Shareholders shall adopt internal document (Executive Body members Code of Conduct) regulating transactions that may lead to conflict of interests, as well as decision making on and disclosure of such transactions.

## **CHAPTER 5. FINANCIAL REPORTING, TRANSPARENCY AND DISCLOSURE**

### **1. FINANCIAL REPORTING**

The main purpose of financial reporting is to ensure control over the company's financial activity and thereby increase the confidence of investors in the company and its governing bodies.

Companies should preferably keep their accounting in conformity with International Financial Reporting Standards (IFRS) for establishing improved modern financial reporting system.

In addition the company shall comply with the following requirements in order to establish reliable financial reporting system:

- Adopt and implement the legal documents regulating the financial activity;
- Organize the internal control system;
- Organize the risk management system in the company;
- Prevent illegal actions of the company's executive officers;
- Ensure the credibility of disclosed information on the company's activity.

### **2. EXTERNAL AUDIT**

- 2.1. External auditor should be independent, well-qualified to carry out their duties, and free of conflicts of interest.
- 2.2. External auditor should provide only an audit opinion and refrain from providing any other non-audit services to companies. The external audits should be conducted in accordance with the International Standards on Auditing.
- 2.3. External Auditor should be appointed by the GMS. The company should have internal document regulating the appointment of external auditor.
- 2.4. The respective employee (or an audit partner) of the external audit firm conducting the company's audit should be rotated once every 3 (three) years and the audit of the company shall be entrusted to another employee (or audit partner).

### **3. DISCLOSURE OF INFORMATION**

- 3.1. The Supervisory Board should adopt guidelines to ensure that all relevant information about the operations of the company is disclosed accurately, timely, and in full.
- 3.2. The companies should prepare annual reports that not only meet legal requirements, but also includes information which should be disclosed in accordance with the best practices, e.g., description of the business, analysis of financial condition and results of operations, changes in equity and cash flow, any material risks and risk factors;
- 3.3. The companies should disclose interim results and material events. The companies should heavily apply the web-based disclosure, and place their annual reports on the official website.
- 3.4. The disclosure policy of the company shall be determined and released to the public.

## **CHAPTER 6. THE SYSTEM OF INTERNAL CONTROLS, INTERNAL AUDIT FUNCTION AND RISK MANAGEMENT**

### **1. INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT FUNCTION**

- 1.1. The company should set up an internal control system that guarantees effective reporting and disclosure of information. The Supervisory Board should ensure the development of a reliable system of internal controls, to guarantee the achievement by the company of the performance and financial targets.
- 1.2. The internal control system should be developed and operate in order to increase the effectiveness of the company management and improve its activity, evaluate the performance of and provide direction to the company and its separate governing bodies (structural units). The internal control shall cover the following issues:
  - Formation of control environment (objects), including the determination of areas related to information system and financial reporting;
  - Risk evaluation process of the company;
  - Conduct of control events;
  - Monitoring of control objects.
- 1.3. As an integral part of the system of internal controls, the companies should establish internal audit departments. The internal audit function shall be in line with the following principles:
  - reliability and integrity of financial and operational information;
  - effectiveness and efficiency of operations;
  - safeguarding of assets;
  - compliance with law and company policies and procedures.
- 1.4. The internal audit department should have a broad scope of work to investigate all levels of the organization and be independent from management.
- 1.5. The internal audit function should be established in line with legislation of the Republic of Azerbaijan and the standards adopted by the International Institute of Internal Auditors.

### **2. RISK MANAGEMENT**

- 2.1. Supervisory board is responsible for the total process of risk management ensuring that all risks of essential internal and external operations, financial and legal compliance and other risks are evaluated and managed adequately by a stable internal mechanism. Supervisory Board should decide that risks the company should or should not take in pursuit of its goals and objectives. Supervisory board should ensure that the company should have processes in place by which they can identify and assess potential risks, measure their impact potential and adopt responsive measures to mitigate those risks.
- 2.2. Management board should be accountable to the board for designing, implementing and monitoring the risk management procedures and integrating them into companies' daily operations.

## **CHAPTER 7. CORPORATE GOVERNANCE OFFICER**

### **1. THE ROLE OF CORPORATE GOVERNANCE OFFICER**

- 1.1. Companies should establish the position of Corporate Governance Officer. The authority to establish Corporate Governance Officer position, as well as appoint and dismiss respective persons to this position shall be vested with the Supervisory Board.

### **2. FUNCTIONS OF THE CORPORATE GOVERNANCE OFFICER**

2. Corporate Governance Officer should preferably perform the following functions:
- 2.1. Ensuring the organization and holding of GMS, Supervisory and Management Board meetings as provided by the law and company's internal documents. With this purpose the Corporate Governance Officer:
- takes appropriate measures in compliance with the law and company's internal documents;
  - ensures the observance of set procedures at the GMS, Supervisory and Management Board meetings;
  - compiles the list of shareholders eligible to participate at the meeting, sends them appropriate notices and enables them to familiarize with the requisite documents;
  - registers the meeting participants;
  - keeps minutes of meeting;
  - monitors the implementation of decisions adopted at the meeting, ensures the implementation of these decisions;
  - reports on the organization and holding of meetings, as well as adopted decisions;
  - informs the Supervisory Board's chairperson on completed tasks.
- 2.2. Supporting the work of Shareholders, Supervisory and Management Board members. With this purpose the Corporate Governance Officer:
- provides the shareholders, supervisory and management board members with the documents necessary for the exercise of their duties;
  - explains to the shareholders, supervisory and management board members the provisions of the law and company's internal documents;
  - organizes familiarization of the shareholders, supervisory and management board members with the company structure, its executive officers and their responsibilities, adopted and effective documents;
  - organizes trainings for newly elected members of Supervisory and Management Boards and provides advice for company executives on matters of corporate governance.
- 2.3. Disclosing information about the company and ensuring storage of company documents. With this purpose the Corporate Governance Officer:

- exercises control over the disclosure of information about the company in compliance with the law and company requirements;
  - ensures the implementation of document storage requirements.
- 2.4. Facilitating the resolution of disputes with regard to violation of shareholders rights, as well as conflicts between the company executives. With this purpose the Corporate Governance Officer:
- reviews shareholders' complaints;
  - submits the shareholders' appeals to the respective bodies and units, and exercises control over timely provision of responses;
  - reviews the disputes between the company's governing bodies and executives, provides recommendations to their resolution and advices on their regulation from the corporate law viewpoint;
  - summarizes the practices of dispute resolution between the company's governing bodies and executives and prepares recommendation on the respective amendments and changes to the company charter and other internal documents (regulations, bylaws);
  - prepares and submit to the chairperson of Supervisory Board the report on the violation of shareholders rights and dispute resolution between the company's governing bodies and executives.

### **3. ORGANIZATION OF CORPORATE GOVERNANCE OFFICER ACTIVITY**

- 3.1. The corporate governance officer shall be appointed and dismissed by the decision of supervisory board. The agreement shall be signed between the chairperson of Supervisory Board and Corporate Governance Officer.
- 3.2. The Supervisory Board shall approve the By-law on Corporate Governance Officer. The By-law shall determine the rights and responsibilities, scope of authority and other issues related to Corporate Governance Officer.
- 3.3. The remuneration of Corporate Governance Officer shall be determined by the Supervisory Board and paid out of company account.
- 3.4. To ensure more effective activity of Corporate Governance Officer the company can establish Corporate Governance Service under the supervision of CG officer. The employees of Corporate Governance Service shall be appointed by the Management Board based on the recommendations of the Corporate Governance Officer. The employees of Corporate Governance Service shall be confirmed to a post by the Corporate Governance Officer.

## **CHAPTER 8. STAKEHOLDERS**

- 8.1. The companies should respect the rights of all stakeholders, including employees, creditors, clients, suppliers, the local communities and general public. The companies should make decisions taking into consideration the interests of employees, creditors, clients, suppliers, the working and natural environments, and local communities, and they should consider the impact of those decisions on all stakeholders.
- 8.2. The stakeholders should have an opportunity to familiarize themselves with the company information, including its plans, reports, etc.
- 8.3. The companies should comply with their legal obligations with regard to stakeholders and shall not act in conflict with the legal interests of stakeholders.
- 8.4. The companies should support and provide opportunities for effective stakeholder participation in accordance with the law and international best practices in matters of non-financial information disclosure and reporting.
- 8.5. The company should disclose information about economic, social and environmental issues of concern to stakeholders (for example, anti-corruption policies, labor policies, policies regulating supplier and client relations, the company's corporate social responsibility policies, environmental protections and nature preservation policies).