

BUSINESS ETHICS

GUIDELINES FOR RUSSIAN COMPANIES

DEVELOPED BY
INDEPENDENT DIRECTORS ASSOCIATION (IDA)
AND THE RUSSIAN INSTITUTE OF DIRECTORS (RID)



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Information on Developers



The Independent Directors Association (IDA) was established in April 2002 as a professional organization of corporate directors based on self-regulation principles. Presently IDA unites over 100 corporate directors of Russian and international companies, and corporate governance experts.

In 2003 IDA members were appointed independent directors in the following companies: North West Telecom, Centertelecom, Trade House GUM, Norilsky Nickel, Wimm-Bill-Dann, Votkinsk HPP, Kalugaenergo, Kurganenergo, Permenergo, Stavropol GRES, Apteka Holding, etc.

The Association assists Russian public companies in improving their performance by implementing the best corporate governance practices. The Association formulates and maintains professional and ethical standards of independent directors.

The Association holds events (conferences, seminars, roundtables and corporate business trainings) aimed at improving performance of boards of directors and streamlining of activities of professional community of corporate directors. The Association's sphere of activities encompasses a wide range of studies, advisory services and drafting of corporate instruments for Russian companies.

Presently the Association is involved in implementation of the important project (to be realized over the period through end of 2005 and financially supported by USAID) known as "Better Corporate Boards Practices: Increasing the Role and Contribution of Independent Directors". Its major modules comprise: (1) a series of conferences for owners (shareholders), directors and top managers of leading Russian companies on issues of separation of ownership from management, on improved performance of boards of directors; and (2) Recognizing Board Diversity and Significance of Women on the Board. Within the framework of the second module the Association undertakes a study of the role of women and develops recommendations to be submitted to an International conference.

The Association also implements such projects as (1) Role of Independent Director in Russian companies; (2) Corporate governance in Banking Sector (jointly with the National Securities Market Association); (3) Development of Guiding Principles and Implementation of Codes of Business Conduct and Ethics for Directors.

The Association (together with the Russian Institute of Directors) developed the Independent Director Code based on the best foreign and domestic practices. The draft code was presented in April 2003 at the international conference "Corporate Behavior in the Financial Market" held by the Moscow International Currency Exchange and the New York Stock Exchange with the Association's participation. The objective of the code is to formulate performance standards and professional ethics of independent directors in Russia, to increase reliance on the institute of independent directors by the investment community and companies.

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The Russian Institute of Directors (RID) is a non-commercial partnership created by the largest Russian public companies in November 2001 in order to develop, introduce and monitor corporate governance standards in Russia.

Presently RID is the leading corporate governance expert and resource center and one of the key participants in the process of drafting and on-going improvement of the Russian corporate governance code, a developer of the Declaration of Principles of the Professional Community of Corporate Directors as well as of the National Register of Professional Corporate Directors and the National Corporate Governance Rating System (maintained by the consortium of RID and Expert Rating Agency). RID is engaged in fundamental and applied studies, drafting legislation, advisory services and development of internal corporate governance documentation and personnel training activities for Russian business leading companies. As of March 2003 over 150 members of boards of directors and top managers as well as 168 corporate secretaries underwent corporate governance training at specialized RID courses. Since 2003 the RID HR center has been maintaining the National Register of Professional Corporate Directors and facilitating their nomination to boards of directors of Russian joint stock companies on behalf of private shareholders and the government.

Since March 2003 the Russian Institute of Directors has been operating as a working body of the National Corporate Governance Council – a permanent public organization of managers of the largest Russian industrial and investment companies, federal power bodies, relevant committees of the State Duma and the Federation Council.

The Russian Institute of Directors financially supported by USAID (US Agency for International Development) is engaged in implementation of the integrated 2003-2006 project "Improvement of corporate governance in Russia" which provides for (1) annual surveys of corporate governance practice in Russia, (2) development of methods and conduct of regular corporate governance rating, (3) development and introduction of professional and ethical corporate governance standards, (4) provision of specialized corporate governance training for board members and top managers and (5) holding public corporate governance information and outreach events in Moscow and Russian regions.

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TABLE OF CONTENTS

INTRODUCTION p. 5

1. Purpose of these Guidelines
2. Why business ethics are a matter of urgency for Russian enterprises
3. Ethical Business Traditions in Russia
4. Russia-specific Factors Affecting the Implementation of Business Ethics

CHAPTER 1. UNIVERSAL BUSINESS ETHICS PRINCIPLES..... p. 15

1. Common (Fundamental) Ethical Principles of Corporate Conduct
2. Ethical Principles in International Business
3. Integrity, Decency and Reliability in Business
4. Respect for Property Rights
5. Collectivism
6. Criticism, Rectification of Ethical Errors, and Freedom from Conflict
7. Environmental Protection Principle
8. Hedonistic Principle
9. Philanthropy
10. Corporate Social Responsibility
11. Professionalism, Competency and Awareness
12. Informed Consent
13. Information Disclosure
14. Confidentiality and Professional Secrecy
15. Conflicts of Interests
16. The Protection and Proper Use of Corporate Assets
17. Compliance with legal and regulatory requirements
18. Reporting Unlawful and Unethical Conduct to Executive Bodies and Official Authorities
19. Anti-Corruption Measures

**CHAPTER 2. BUSINESS ETHICS PRINCIPLES FOR
STAKEHOLDERS..... p. 37**

1. Shareholders
2. Directors
3. Managers
4. Employees
5. Non-managing investors
6. Competitors
7. Suppliers
8. Customers

**CHAPTER 3. . RECOMMENDATIONS ON BUSINESS ETHICS
DOCUMENTS DEVELOPMENT p. 45**

1. Functions of Business Ethics Documents
2. Types of Business Ethics Documents
3. Principles of Business Ethics Documents Development

APPENDICES: SAMPLE BUSINESS ETHICS DOCUMENTS p. 50

1. Russian Business Ethics Code "12 Principles of Doing Business in Russia" (1998, Russian Chamber of Commerce).
2. Corporate Ethics Charter (2003, the Russian Union of Industrialists and Entrepreneurs).
3. Business Ethics Excerpts from the Corporate Governance Code (2002, the Federal Securities Market Commission).
4. Independent Director Code (2003, Independent Directors Association).
5. Declaration of Principles of the Professional Community of Corporate Directors (2003, Russian Institute of Directors).

INTRODUCTION

Purpose of these Guidelines

The purpose of these Guidelines is to fill the information and methodology void that has formed as Russian entrepreneurs realize the utility and practical benefits of business ethics as a key instrument for effective business management and development. The writers of the Guidelines sought to provide Russian companies with clear signposts to put them on a fast-track from need acknowledgement to practical implementation of corporate ethics in business.

These Guidelines are targeted at owners and senior managers of large, medium and fast growing small enterprises, board of directors members, board of directors committee members and experts, and managers charged with developing and implementing corporate ethics and social responsibility programs.

These Guidelines are universal and apply to all Russian companies, regardless of sector, size, structure or specifics.

These Guidelines are based on leading international and Russian experience as regards building effective business relationships. The content and structure of these Guidelines have been optimized to enable their practical implementation.

The introduction to this manual, which explains the urgency of the Guidelines and describes business ethics traditions in Russia and country specifics regarding their implementation, could be used as a starting point for the discussion and adoption by companies' executive bodies of resolutions implementing business ethics standards. It can also be used as a basis for the preamble to corporate ethics codes.

Chapter 1 of the Guidelines, which addresses universal international principles in the area of business ethics, applicable in all sectors, will help companies formulate fundamental business ethics principals applicable to an entire holding or corporation or to all of the structural units of a given company. This will establish clear common corporate principles governing all aspects of business relationships.

Chapter 2, which deal with business ethics principles in corporate governance, will be indispensable when drafting corporate ethics code chapters dealing with corporate relationships with interested parties – shareholders, directors, managers, investors, business partners, and customers. Chapter 2 will be useful for companies developing business relationship principles applicable to the specific of the company, its units, and so-called related parties.

Chapter 3 discusses typical corporate ethics documentation and the principles governing the drafting of such documentation. It also provides guidelines on structuring the content of the ethics code of any given company.

The Appendixes to the Guidelines contain the business ethics documents of some Russian business and professional associations, as well as relevant extracts on business ethics from the Corporate Conduct Code recommended for implementation by joint stock companies by the Federal Commission for the Securities Market. These documents may serve as additional sources of information for Russian companies seeking to formulate their own business ethics codes.

Drafting high quality documents on business ethics that provide guidelines on the principles governing business relationships is a complex and responsibility laden process, because the effectiveness of the business as a whole depends in many respects on its outcome. With that in mind, companies developing corporate business ethics codes are recommended, wherever possible, to constitute special working groups made up of highly professional and authoritative company specialists assisted by external consultants specializing in corporate ethics and social responsibility.

Why business ethics are a matter of urgency for Russian enterprises

Business ethics is the term used to describe the moral principles and standards that govern business activity. Business ethics could seem somewhat low on the list of priorities given the host of other problems, risks and uncertainties companies face when doing business in Russia. So, what is pushing a growing number of businesses in Russia to implement standards of business ethics?

Russian companies are forced to divert substantial resources that would otherwise be used to finance fast expansion to protect themselves against criminal extortion and unfair competition, to "feed" a system of state and commercial graft, to repeatedly check work quality, and to monitor their business partners and their own employees to the best of their possibilities. Right thinking Russian entrepreneurs make no secret of the fact that they are tired of playing a "game without rules", and are collectively calling out for a "civilized" business environment based on best international and Russian business ethics standards.

Foreign entrepreneurs and investors entering the Russian market often openly despair at the unethical and frequently criminal conduct of competing businesses. Outside Russia, the country is best known for its red tape, corruption, links between business and mafia, extortion, and kidnapping and murder as means of eliminating competitors. Clearly, this is an unsuitable investment climate for foreign capital owing to the excessive risks and threats even to the physical safety of entrepreneurs.

Therefore, in today's Russia, "business ethics" refers to the fundamental "rules of the game" without which business becomes problematic, risky and unpredictable. For that reason, there is a growing awareness in Russia of the benefits of adhering to business ethics principles, i.e., transparency, reliability, and honesty in business are becoming as important as other economic criteria of business.

There is a crying need for sound business ethics in corporate governance as this will go a long way to structuring the system of relationships between shareholders, boards of directors, managers, employees, and other related parties

such as suppliers, distributors, vendors, end users, the local population, and the authorities.

The Russian business literature contains little in the way of information on business ethics in corporate governance. This brief description of ethical business traditions in Russia and universal international business ethics principles, coupled with suggested guidelines for joint stock companies drafting business ethics codes, stems from the need to establish "civilized business relations" and "civilized business" in Russia. Unless Russian companies implement and adhere to business ethics codes, capital raising and business development will always be a problem in Russia.

Ethical Business Traditions in Russia

What makes enterprise in Russia distinct from business elsewhere is its ethical aspect.

The path "from Varangians to Greeks", which culminated with the emergence of the first ancient Russian State, elevated the merchant class, where solidarity and allegiance to "merchant honor" were valued above all else. In those times, ethical codes of enterprise, otherwise known as "charters", dealt only with the counterfeiting of goods. All other rules of enterprise were "unwritten", i.e. depended on the merchant's individual conscience. The deep religious convictions of merchants were a major restraining factor here. For instance, merchants sought to atone before God and fellow man for the sin of covetousness through their sincere and deep profession of faith, pilgrimages to holy places, alms giving, and other "good works", i.e. charity.

It was firmly believed at the time that entrepreneurial success could be secured through patronage of the saints, and all trades and professions had their own patron saints.

During the period of Mongol domination of Russia (the Golden Horde), a nationalist and Orthodox idea of enterprise based on pan-Russian patriotism began to take shape. For instance, merchants who were known to be of irreproachable reputation were periodically retained by the princes of Muscovy and other Russian lands to carry out important political missions, because merchants traveled "from

land to land and are know to all in the Golden Horde and abroad (Western Europe) alike".

As Muscovy's power rose following the fall of the Golden Horde, entrepreneurs, i.e. merchants and tradesmen, rose to the status of citizens and acquired the right to own land and to express their ethical and political views in the solemn oath on the cross, which the Russian tsars swore to observe. However, as the foundations of the State solidified and the "servitude economy" expanded, so too did the scope for bureaucratic influence, and, with it, bureaucratic corruption. It was at this time that enterprise ethics became dependent on the State: commerce was no longer possible without bribery, as illustrated by the fact that merchants from Sergiev Posad complained to the tsar about bribery as early as 1662. Nor were foreign merchants shy of graft, deceit and imposture: written records remain of complaints by Russian merchants at the roguery of English, Netherlandish and German merchants.

The Petrine reform period brought official recognition of the idea that enterprise was good for the State and for society. The General Regulation of 1721 and other State decrees named the development of commerce, art and manufactory, "by which all other states do flourish and grow wealthy...", as a condition for the achievement of the "common good".

By the middle of the eighteenth century, the idea of the "accomplished merchant" had gained currency in Russia as the ideal of moral stewardship. At the initiative of the Commerce Collegiate, European works on enterprise ethics were translated into Russian at this time and read with interest.

"Le Parfait Negociant", written by Jacques Savary in 1675, was popular among merchants as a guide to professional standards of effective enterprise: expertise, experience, prudence, caution, mercenariness, parsimony and honesty are named in the work as important to securing a solid reputation. Russian merchants had their own idea of the ideal entrepreneur as someone who obtained prosperity through decency, good morals, and self discipline.

By the first half of the nineteenth century, the Russian market had become characterized by its preference for high quality goods, even despite the higher cost. "Costly but good, cheap and nasty": such is the Russian proverb. The striving to

produce and sell high quality goods became an important element of ethics in enterprise, leading to the emergence of competition between trademarks alongside that which already existed between goods. Savva Vasilievich Morozov was especially renowned for the "fineness of his goods", which he achieved through strict selection, multiple sorting, and honest sale. At this time, just as had been the case under Muscovy, civil status and patriotism were values held in high esteem by enlightened merchants: enterprise was recognized as having equal industrial, commercial and indeed social implications. Thus emerged the concept of corporate social responsibility in Russia.

The ethical standards thus developed by Russian entrepreneurs served as a starting point for the emergence of an explicit business ethics paradigm based on such key values as honesty, adherence to one's word, reliability and competence. This moral template was complemented by a series of professional values: sobriety in judgment, decisiveness, knowledge of one's market, organizational skills, the ability to establish connections, and the capacity to attract investment. Entrepreneurs with a reputation for straight-forward dealing and sound commercial skills frequently acted as capital magnets by their very presence at a company. Oftentimes, a precondition for the establishment of a new partnership was that it should be headed by an entrepreneur whose moral standing could not be called into question.

At that time, the word of honor of a Russian entrepreneur frequently carried more weight for foreign contracting parties than a signed agreement. The merchant elite judged harshly any wavering from or failure to adhere to ethical standards in enterprise, which could often result in the suspension or limitation of business contacts. An oral accusation of dishonesty was sufficient to cause a rupture in commercial relations and the sacking of the accused. In this manner did the Russian standard of commercial morals lose its "artisanal" or corporate character to become universal.

For the sake of objectivity, it should be said that the new commercial era of the nineteenth century brought a torrent of people from all social classes into Russian industry, trade and finance, people who had no idea of the traditional class-based enterprise morals system: "stock exchange fools" - speculators without any

talent, "people with connections", former civil servants with greasy palms. And this factor ran counter to and obstructed the emergence of enterprise ethics in the country.

While it took Russia much in the way of effort to grasp the notion of morality in enterprise, by the beginning of the twentieth century Russia already had the potential to become a great world power: the Russian ruble was tied to the gold standard, Russian agricultural exports were among the highest in the world, Russian engineers were in demand abroad to work on industrial development projects. Historians and specialists in the sphere of enterprise culture agree that Russia had succeeded in catching up with and indeed passing out the economically developed countries largely thanks to the accelerated development of its enterprise ethics and principles, on which commercial relations are founded.

In 1912, a full twelve years before the USA, the Russian business community adopted at a nationwide level its first code of ethics, "Seven Principles Governing Business in Russia", which set forth the fundamental ethical traditions in enterprise in the country:

1. **Respect for government.** Government is necessary for effective business. Therefore, show respect to those who administer order in legitimate government.
2. **Be honest and truthful.** Honesty and truthfulness are the foundation of enterprise and a prerequisite for healthy profit and harmonious business relations. The Russian entrepreneur shall be irreproachable in virtue, honesty and truthfulness.
3. **Respect private property rights.** Free enterprise is the foundation upon which rests the prosperity of the State. The Russian entrepreneur shall do his utmost to work in the interests of his Native Land. Private property is the key to unlocking such zeal.
4. **Love and respect your fellow man.** The entrepreneur who loves and respects his worker will receive love and respect in return. The resulting harmony of interests will awaken in people the most diverse capacities and cause them to reveal their inner best.

5. **Be true to your word.** The entrepreneur shall be true to his word. "Once you have lied, who will believe you?" Success in enterprise largely depends on the extent to which you are trusted.
6. **Do not live beyond your means.** Do not dive in. Do not bite off more than you can chew. Always know your capacities. Act in accordance with your means.
7. **Be purposeful.** Always have a clear goal. The entrepreneur needs a goal just as he needs air. Do not become distracted by other goals. A man cannot serve two masters. Do not overstep the boundaries of the permissible in striving to achieve a cherished goal. No goal should blind you to moral values.

During the Soviet period, which brought Russia from War Communism through the New Economic Policy (NEP) to the command economy system, business ethics in the country were characterized by functionalism running to cynicism, moral double standards of the "for myself and for the State" type, abysmal ethical standards coexisting with the officially propagated Moral Code of the Builders of Communism, and fear of official sanction dominating business relations.

Business relations thus became characterized by passivity and avoidance of the slightest risk at the expense of entrepreneurial initiative.

The business "ethics" of the state and administrative system of the pre-perestroika Soviet period were characterized by the wholesale inflation of economic plans and falsification of figures, the preeminence of "vertical" business relations of the "I'm the boss and you're the idiot" type, skunkwork and crash efforts at the expense of quality, and amoral attitudes to business.

In the words of Professor P.N. Shikhirev, a leading specialist in the field of Russian business culture, "during the Soviet period, Russia's business culture went through a huge zig-zag in which it lost many of its pre-revolutionary gains and missed out on many of the global trends in international business culture."

Today, the emergence of business ethical standards as an "honor code" for the contemporary Russian entrepreneur is in its infancy. Russia is seeing the localized emergence of moral principles and ethical standards of business in specific areas of business and in the context of informal business associations and alliances, and even at the level of individual companies. In corporate governance, regardless

of the company's area of activity, ethical standards in business are being shaped by the high political and economic risks inherent in today's Russia, rampant criminality and corruption, and the contradictory attitudes held by society with regard to business and entrepreneurs. Corporate business ethics must, however, be based upon internationally recognized principles of business, since otherwise Russia will fail to attract the international capital needed to secure economic growth and prosperity in the country.

Russia-specific Factors Affecting the Implementation of Business Ethics

It must be recognized that ethical standards can only be implemented effectively at Russian companies if the specifics of doing business in today's Russia are acknowledged: i.e. those factors that generate corruption, those factors that mean the key role of ethical standards in securing success is underestimated, those factors that determine the immaturity of the corporate governance institutions at most Russian companies. The latter, incidentally, are the key to understanding why most Russian companies are unprepared for the transition to new levels of development, including those involving the implementation of ethical standards and principles of corporate social responsibility.

One key characteristic of business in Russia concerns the imperative of non-disclosure of information to third parties, including government bodies, except where the information must be disclosed by law. Given the high level of administrative pressure exerted on businesses in Russia and the opportunities for corruption that this generates (illegitimate demands for information disclosure by administrative bodies), such situations can and do arise. When implementing ethical standards it is important to draw a clear line between disclosure of information and guarding the confidentiality of restricted access information.

In the light of the factors set forth above, a brief summary of the Russian reality should be given in the preamble to the code of ethics of a Russian company so that readers of the code do not judge its writers to be Utopians cut off from the reality in which they exist. This should be followed by a demonstration of the factors that make the elaboration, adoption and implementation of the code relevant and necessary for the Russian company in question.

Chapter 1. Universal Business Ethics Principles

1. Common (Fundamental) Ethical Principles of Corporate Conduct

Today's common, ecumenical and universal business ethics principles are based on axioms of world philosophy, tried and tested over centuries of commercial relations.

The U.S. sociologist Larue Hosmer has provided a useful summary of universal ethical principles in business:

- 1. Never take any action that is not in the long-term self-interests of yourself and/or of the organization to which you belong.** This principle is based upon the teachings of ancient Greek philosophy (Prothagoras) on self-interest, the relationship between self-interest and the interests of others, and the difference between short-term and long-term interests.
- 2. Never take any action which is not honest, open and truthful, and which would not be proud to see reported widely.** This principle is based upon the teachings of Aristotle and Plato on the personal virtues of integrity, transparency and moderation.
- 3. Never take any action that is not kind and compassionate, that does not build a sense of community, a sense of all of us working together for a commonly accepted goal.** This principle is based upon the precepts of the world religions (St. Augustine) behoving compassion and the acknowledgement of reciprocity and interdependency.
- 4. Never take any action that violates the law, for the law represents the minimal moral standards of our society.** This principle is based upon the teachings of Hobbs and Locke on the role of the State as the arbiter of competition between people for the common good.

- 5. Never take any action that does not result in greater good than harm for the society of which you are a part.** This principle is based upon the ethics of utilitarianism, the practical utility of moral conduct, developed by Jeremy Bentham and John Stuart Mill.
- 6. Never take any action that you would not be willing to see others, faced with the same or closely similar situation, also be free or even encourage to take.** This principle is based upon the Kantian imperative on the rule of a universal and common standard.
- 7. Never take any action that abridges the agreed-upon and accepted rights of others.** This principle is based upon the teachings of Jean-Jacques Rousseau and Thomas Jefferson on the rights of man.
- 8. Always act to maximize profits subject to legal and market constraints, for maximum profits are evidence of the most efficient production.** This principle is based upon the economic theory of Adam Smith and the teachings of Vilfredo Pareto on the optimal transaction.
- 9. Never take any action in which the least among us are harmed in some way.** This principle is based upon Rolls' axiom of distributive equity.
- 10. Never take any action that will interfere with the right of all of us for our self development and self-fulfillment to the limit of our abilities.** This principle is based upon Nozik's theory of propagating personal freedom to the extent necessary to develop society.

2. Ethical Principles in International Business

The Caux Declaration of Principles for Business was adopted in 1994 in the Swiss town of Caux-sur-Montreux by the leaders of major national and transnational corporations from the US, Western Europe and Japan in an effort to summarize the moral and ethical principles governing business in the Western and Eastern business cultures. The preamble to the Caux Declaration states that "Laws and market forces are necessary but insufficient guides for conduct. Responsibility for the politics and actions of business and respect for the dignity and interests of its stakeholders are fundamental".

The Caux Declaration is a concentrated summary of the ethical principles governing international business.

Principle 1. The Responsibilities of Businesses: Beyond Shareholders Toward Stakeholders

The value of a business to society is the wealth and employment it creates and the marketable products and practices it provides to consumers at a reasonable price commensurate with quality. To create such value, a business must maintain its own economic health and viability, but survival is not a sufficient goal.

Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created. Suppliers and competitors as well should expect businesses to honor their obligations in a spirit of honesty and fairness.

As responsible citizens of the local, national, regional, and global communities in which they operate, businesses share a part in shaping the future of those communities.

Principle 2. The Economic and Social Impact of Businesses: Toward Innovation, Justice and World Community

Businesses established in foreign countries to develop, produce or sell should also contribute to the social advancement of those countries by creating productive employment and helping to raise the purchasing power of their citizens. Businesses also should contribute to human rights, education, welfare, and vitalization of the countries in which they operate.

Businesses should contribute to economic and social development not only in the countries in which they operate, but also in the world community at large, through effective and prudent use of resources, free and fair competition and emphasis upon innovation in technology, production methods, marketing and communications.

Principle 3. Business Behavior: Beyond the Letter of Law Toward a Spirit of Trust

While accepting the legitimacy of trade secrets, businesses should recognize that sincerity, keeping of promises and transparency contribute not only to their own credibility and stability but also to the smoothness and efficiency of business transactions, particularly on the international level.

Principle 4. Respect for the Rules

To avoid trade frictions and to promote freer trade, equal conditions for competition, and fair and equitable treatment for all participants, businesses should respect international and domestic rules. In addition, they should recognize that some behavior, although legal, may still have adverse consequences.

Principle 5. Support for Multilateral Trade

Businesses should support the multilateral trade systems of the GATT/World Trade Organization and similar international agreements. They should cooperate in efforts to promote the progressive and judicious liberalization of trade, and to relax those domestic measures that unreasonably hinder global commerce, while giving due respect to national policy objectives.

Principle 6. Respect for the Environment

A business should protect and, where possible, improve the environment, promote sustainable development, and prevent the waste of natural resources.

Principle 7. Avoidance of Illicit Operations

A business should not participate in or condone bribery, money laundering, or other corrupt practices: indeed, it should seek cooperation with others to eliminate them. It should not trade in arms or other materials used for terrorist activities, drug traffic or other organized crime.

The Principles for International Business set forth in the Caux Declaration represent a global ethical standard for structuring and measuring conduct in international business.

3. Integrity, Decency and Reliability in Business

Integrity, decency and reliability are the business ethics held in highest esteem worldwide and in Russia, as adherence to these principles is crucial to creating the mutual trust needed to build effective business relations.

Mutual trust is the key moral and psychological factor in business. It engenders predictability in business relations, confidence in a business partner's sense of duty, and the stability of joint business operations.

4. Respect for Property Rights

Respect for property rights as a principle for business takes the following forms:

- The impermissibility of the unlicensed use of property that is not your own.
- A striving to balance mutual benefit in carrying out a transaction – the essence of property right conveyance.
- The correct use of trademarks.
- The proper use of technology provided under franchising license.
- The impermissibility of plagiarism, i.e. the use of intellectual property that is not your own.
- The impermissibility of copyright breach.
- The agreement of ownership shares in joint projects.

5. Collectivism

Collectivity and professional concilium as a principle for business takes the following forms:

- A striving toward collective decision making and toward mutual assistance in matters related to vital conclusions (professional conciliums) and extraordinary force-majeur circumstances requiring joint efforts.
- A striving toward collective resolution of complex industrial tasks within an enterprise, or complex professional tasks within a professional or industrial association.
- Respect in dealings with colleagues as regards collective, national and religious matters and personal life events.
- Rendering of assistance to less experienced colleagues.
- Support to colleagues in difficult circumstances.

6. Criticism, Rectification of Ethical Errors, and Freedom from Conflict

The right to criticize, the right to rectify ethical errors and the right to freedom from conflict as a principle for business take the following forms:

- The ability to and possibility of criticizing the work of the management, colleagues and business partners without offending the personal dignity of those criticized.
- The renunciation of unconstructive criticism of business participants.
- The ability to accept criticism from others.
- Doing everything in one's power to rectify any ethical error in business regardless of one's business status and the time lapsed since the error was committed.
- A striving to refrain from actions or inaction that could provoke conflict in business.

- Constructive action to remedy business conflict based on striking a balance between the business participants.

7. Environmental Protection Principle

The environmental protection principle has been a key and generally accepted moral standard in business since the second half of the twentieth century. Its essence is as follows:

- The renunciation of practices that harm the environment.
- The renunciation of practices that pollute human and wildlife habitats.
- The recycling of waste generated by business activity and the utilization of purification facilities.
- The proper storage and transportation of environmentally hazardous substances.
- The economical use of natural resources, including water, and the use of heat and energy saving technologies.
- Regard for standards of cleanliness and hygiene, including air quality, working conditions, and general access offices.

8. Hedonistic Principle

The hedonistic principle of ethics in business is based on the natural tendency of humans to seek enjoyment and avoid suffering. Its essence is as follows:

- The production of goods that are comfortable, safe, well-designed and pleasing to their users.
- The provision of services to consumers that are comfortable, safe, and pleasant, including interior design.
- Adherence to standards of affability and benevolence in work and business in order to propagate good humor and favorable impressions.

- The avoidance of complaint and unfounded misgivings, and the concealment of personal problems and bad humor when dealing with colleagues, clients and contracting parties.

9. Philanthropy

As a principle for business, philanthropy takes the following forms:

- The deliberate display of good will and extension of unremunerated assistance to less fortunate members of society.
- The implementation or unremunerated financing or provision of tangible or professional assistance to social programs in healthcare, education, culture, etc.
- The implementation or unremunerated support of environmental programs.

10. Corporate Social Responsibility

In recent years, corporate social responsibility has become an integral component of the business ethics of international and Russian companies.

While there is no standard and generally accepted definition for the notion of corporate social responsibility, the term is usually employed in connection with the ethical values, legal requirements, and imperatives of respect for people, their communities, and the environment, that inform decision making processes in business.

For the purposes of these Guidelines, corporate social responsibility is defined as doing business in a manner that corresponds to or exceeds the ethical, legal, commercial or public expectations of society.

Corporate social responsibility is seen by world and Russian business leaders as something more than the sum total of the discretionary practices and individual actions or initiatives of a company motivated by the marketing, public relations or other benefit thereof for the business. Corporate social responsibility is seen more

as an exhaustive set of policies, practices and programs that are integrated into all business operations, and as a decision making process adhered to and propagated by senior management.

The past decade has seen a rise in the number of companies recognizing the benefits to business of implementing corporate social responsibility policies and practices. The experience of the companies in question is confirmed by a growing volume of empirical research, which demonstrates the positive impact of corporate social responsibility on a business's finances and its harmlessness for shareholders.

Moreover, companies are being encouraged to implement or elaborate corporate social responsibility policies by States, consumers, suppliers, employees, communities, investors, NGOs and other interested parties.

The principle of corporate social responsibility can be embodied through the elaboration and implementation by enterprises and organizations of the following programs and measures:

- Social programs for employees and their families.
- Social programs for the communities in which enterprises and organizations are implanted.
- Educational development programs, including programs to increase information technology access.
- Healthcare improvement programs, including programs to fight alcoholism, smoking, drug abuse, and HIV infection.
- Antidiscriminatory measures, including measures to ensure gender equality and equal rights regardless of nationality, race and religion.
- Measures to fight corruption.
- Measures to improve work safety.
- Measures to protect the environment, including measures to prevent environmental damage and measures to promote waste recycling, energy saving, and natural resource renewal.

11. Professionalism, Competency and Awareness

Professionalism is a key principle in ethics for business. Decisions made without due professional care harm the interests of all parties and damage both the corporation and all parties to corporate relations. Therefore, professionalism is a key prerequisite for people responsible for making complex business decisions: board of directors members and managers.

Professionalism can be defined as having the business qualities and abilities required for the successful performance of one's professional duties.

Professionalism as a principle is embodied in the following:

- Seeing one's work as "service" to one's business enterprise and to society as a whole.
- Assuring the high quality of goods and services produced.
- Respect, trust, collaboration and mutual assistance in dealings with colleagues.
- Fair competition with other representatives of one's profession.
- Respect for representatives of other professions.
- Leading a "healthy" lifestyle conducive to the best performance of one's professional duties.
- Striving to obtain the requisite qualifications and knowledge to perform one's duties to the best of one's professional abilities. This is accomplished first and foremost by adhering unwaveringly to all of the requirements of any applicable professional codes or standards, and, secondly, by constantly striving to improve one's professional capacities (advanced training, education, etc.).
- Performing one's professional duties with due regard to the level of competency required for the position.
- Performing one's duties in a courteous manner.

- Having regard in decision making to decisions made by other people and to the interests of other affected parties, rather than basing decisions on economic aspects alone.
- When the circumstances require (i.e. when a professional realizes that his or her own competency may not be sufficient), involving independent experts or consultants or colleagues in the decision making process. The ability to admit one's own incompetence with regard to a given issue is a key aspect of ethics in business.

12. Informed Consent

The principle of informed consent precludes the concealment of any type of information from shareholders and beneficial owners, board of directors members, and any other affected parties when making decisions that touch upon their rights and lawful interests.

Situations whereby managers conceal important information that could influence a decision made by the board of directors or general meeting of shareholders constitute one of the most flagrant violations of one of the fundamental rights of corporate stakeholders: the right to exhaustive and accurate information.

13. Information Disclosure

Information disclosure is a key fundamental prerequisite for the successful implementation of ethical standards. Indeed, information disclosure is crucial to the successful embodiment of all of the principles discussed herein.

For example, disclosure of one's incompetence with regard to a given issue is a key prerequisite for due adherence to the principle of professionalism.

The principle of informed consent demands the disclosure of information in the interests of making a proper decision "with open eyes".

The possible disclosure of information must at all times inform the analysis of any action contemplated by a corporate stakeholder. The matter of how other stakeholders would react if an action, if carried out, became widely known, acts as a considerable restraint on the performance of unethical actions.

Accordingly, the imperative of information disclosure on all actions or inaction having ethical implications is crucial to the successful implementation of ethics in business. Therefore, the concealment of information in conflict situations, even if the information in question is not unethical, must be seen as a breach of ethical standards even if the consequences have not been adverse.

Information disclosure procedures can be simplified by elaborating corporate document templates (statements, corporate memoranda, etc.) setting forth the grounds and reasons for disclosing specific information and the information content subject to disclosure.

14. Confidentiality and Professional Secrecy

Confidentiality is the term used to refer to respect for and the protection of the secrecy of the affairs of a company, its shareholders, directors, managers, and other stakeholders.

The principle of confidentiality should be disregarded with respect to information on mala fide and unlawful conduct.

Situations involving incompetence or the concealment of information that should be disclosed demand adherence to the principle of information disclosure, even if this involves informing the executive bodies of a company or the competent official authorities of the unlawful or unethical conduct.

The principle of confidentiality encompasses the following:

- The protection of information concerning a company's business that is not subject to disclosure, i.e. information that constitutes a commercial secret.
- Maintaining total discretion with regard to the business, financial and personal affairs of shareholders, directors, managers, employees, and contracting parties.
- Non-disclosure of information to third parties, including official authorities, if the demand for disclosure is legally unfounded. Such situations can arise in contexts of strong administrative pressure on businesses and high levels of corruption.
- Information should only be disclosed to third parties if: a) a lawful demand for disclosure has been made; b) the party whose interests the information concerns has consented to its disclosure.

- Exercising caution as a matter of course in any negotiations, oral, written or otherwise, in order to prevent the disclosure of confidential information, and exercising particular caution when using any form of telecommunications resources.
- Restricting access to all confidential or important documents.
- Respecting the right of colleagues and subordinates to privacy with regard to their personal affairs, except in situations whereby the welfare of the company or the rights and lawful interests of its stakeholders could be threatened through non-disclosure of information.

In the interests of institutionalizing measures to protect confidentiality, companies are advised to establish and adhere to a common regulation stipulating that any information received in the course of the professional activity of a beneficial owner, director, manager or employee that relates to the business of the company or its contracting parties shall be treated as confidential.

Directors and managers must provide assurance to beneficial owners (shareholders) and other affected parties that employees who work with confidential information that, if disclosed, could harm the said parties, have been made aware of that fact, and that the company has viable mechanisms and procedures (instructions, briefings, control mechanisms) to prevent such disclosure.

It is important to bear in mind also that the protection of confidential information must be permanent. Employees, directors and managers serving at a company must undertake to refrain from disclosing confidential information coming into their possession in the course of their professional duties even after they have left the company or terminated their employment. The confidential information belongs to the company, and directors, managers and employees must continue to respect the relationship of mutual trust and loyalty that existed between the company and its people.

The most reliable and safe method of ensuring that employees respect the confidentiality of information is to extract a clear and unwavering promise to refrain from discussion thereof with anybody, even colleagues who have no access to such information, and including members of the employee's family. In the case of family

members, the problem is that when business matters are discussed, both confidential and non-confidential information is disclosed.

As a result, family members may not be able to distinguish information that should not be disclosed in conversation with acquaintances, and information that can be disclosed. The issue of imposing confidentiality in conversations with family members is a delicate one that requires thorough explanation within the company so that employees do not feel that the management is interfering in their personal life.

15. Conflicts of Interests

The issue of confidentiality ties in closely with the rules of conduct in situations involving a conflict of interests. Indeed, it could even be said that conduct in situations of conflict of interests requires a qualitatively different approach to that required in connection with the imperative of confidentiality. While the key imperative of the principle of confidentiality is non-disclosure, i.e. inaction, situations involving conflict of interests generally require proactive measures on the part of stakeholders.

Conflict of interests arises when the financial and personal interests of a director, manager or employee come into conflict with the interests of the company. With that in mind, managers and employees should be given clear instructions on how to proceed in situations that could give rise to a conflict of interests.

Actions taken in situations of conflict of interests are particularly important where directors and senior managers are concerned. Given that board of directors members frequently own their own businesses or companies or hold general director positions at other companies, it is crucial to:

- Either establish a clear segregation between the interests of the various businesses in which the board of directors member is involved;
- Or exclude the member from participation in decision making on matters that involve a conflict of interests.

The second approach is preferable, as it eliminates the possibility of complaints of bias or subjectivity. It is frequently difficult to prove *post factum* that

a director has weighed all aspects adequately and acted in the objective interests of the company.

Sound advice therefore would be to withdraw from situations of conflict of interests by adhering to the "no conflicts" principle.

Adhesion to the principle of information disclosure in the event of conflict of interests is a key deterrent.

Employees, meanwhile, should be given precise instructions to disclose any conflict of interests to their immediate supervisor or the competent executive body.

Directors and senior managers should inform their colleagues of the onset of any conflict of interests without revealing their opinion on the matter that has given rise to the conflict of interests. If a director or senior manager expresses an opinion on the matter and then renounces participation in the decision making process regarding that matter on the grounds that it constitutes a conflict of interests, then that director or senior manager has failed to observe due objectivity since his or her opinion could influence his or her colleagues' stance on the matter. Of course, if the director or senior manager is an expert or professional in the given field, an absolute refusal to provide an opinion could damage the interests of the company. Therefore, while an absolute prohibition would be unreasonable, the director or senior manager should only express an opinion on a matter of conflict of interests after his or her colleagues (other members of the board of directors, board of management, etc.) have made their decision known.

Due regard should be had to the following situations in which conflicts of interests can arise for directors, managers and employees:

a) Financial investments. Employees should not invest in firms that compete with their employer firm, or in contracting parties of their employer firm. Otherwise their objectivity with respect to their employer firm could be undermined by their financial interest in the competing firm or contracting party.

Of course, if it is a matter of minor (portfolio) investments as opposed to direct investment, no conflict of interests arises if the employee has due regard to priorities.

However, because the matter of how minor an investment is constitutes a value judgment, the employee should notify the management of any such investment.

b) Extraoccupational business or other economic activity for other companies. An employee, director or manager who has another business venture or employment is clearly diverting time and effort that could be used to further the company's prosperity.

Therefore, it should be mandatory for all directors, managers and employees to disclose all extraoccupational business interests that could divert a substantial portion of their time or attention from the performance of their immediate job responsibilities, or otherwise impair their performance.

The restrictions on extraoccupational activities naturally vary depending on the rank and nature of the employee's job responsibilities. A total prohibition on extraoccupational activities is permissible for rank and file employees (provided that this is legal and consistent with the collective labor agreement).

c) Gifts. Employees, directors and managers should not accept any valuable gifts, as otherwise the donor could judge acceptance of the gift to constitute the acceptance by the company of obligations. Acceptance of gifts could lead directors, managers or employees into conflict of interests.

d) Professional or business activities of family members. The professional or business activities of the family members of directors, managers or employees could give rise to conflict of interests if the family member is employed at or has business dealings with a competing firm or contracting party of the company. Therefore, director, managers and employees who find themselves in such situations should first and foremost disclose the situation, and secondly, refrain from participating in discussions or decision-making where a potential conflict of interests could arise.

16. The Protection and Proper Use of Corporate Assets

Protecting the assets of a corporation is matter of particular relevancy in the light of the series of corporate scandals that recently shook the US (Enron, WorldCom, etc.) and Europe (Royal Ahold, Parmalat, etc.).

These events testify to the inadequacy of the legal mechanisms in place for their prevention. Ethical standards of conduct therefore need to be put in place at companies and adhered to by directors, managers and employees.

Directors and senior managers must undertake written ethical obligations to refrain from abuse of assets and to make every effort to ensure their proper utilization. Depending on the nature of the business of a company, its turnover, and the way in which authority and responsibility is segregated between the board of directors and executive bodies, companies can elaborate their own ethical procedures to ensure the protection of their assets. These procedures should be binding for directors and managers.

Special ethical requirements should apply in the case of major transactions and transactions with related parties. The performance of such transactions without going through the procedures of approval by the board of directors and general shareholders meeting can result in serious losses for shareholders (beneficial owners) and lead the company to bankruptcy. The situation is further complicated by the fact that the Russian legislation contains a whole series of vague wordings used to characterize major transactions and transactions with related parties. For instance, transactions carried out in the course of "ordinary business activity" are not classified as major transactions; when defining a transaction as a related party transaction, the Russian legislation calls for the extent to which the parties are affiliated to be taken into account, which can be a formidable undertaking given the poor transparency of the ownership structures of the major Russian holdings (the fact that their shareholders are offshore companies makes it practically impossible (if the beneficial owners do not consent) to measure the affiliation and mutual-affiliation of contracting parties).

Accordingly, the solution (for any given company) lies in establishing special ethical procedures that must be adhered to by directors and senior managers in the

interests of protecting assets in the context of major transactions and related party transactions.

Such an "ethics lever" could take the form of an agreement signed by the director whereby the director undertakes to notify the company of any direct or indirect factors of vested interest in transactions that are subject to approval by the board of directors. Provision could be made in an appendix to the agreement imposing a penalty on the director should he or she conceal information, regardless of whether or not such concealment inflicted losses upon the company.

17. Compliance with legal and regulatory requirements

Observing and complying with the law is a crucial component of ethical conduct for directors and managers. According to American management expert Richard L. Daft, observance of ethical standards, the second level of the business development pyramid, rests on legal compliance, the first level of the pyramid.

In other words, there are no ethical standards without legal compliance. In Russia, meeting this requirement can be problematic owing to the inconsistency, ambiguity and woolliness of the law. In many instances, gaps in the legislation mean that frequently, there are no provisions in law that could be invoked to settle a dispute. For instance, Russia has no legislation regulating the use of insider information.

Companies can get around this problem by creating appropriate provision in their foundation documents and by-laws (of course, without stepping beyond the imperative boundaries of the law).

18. Reporting Unlawful and Unethical Conduct to Executive Bodies and Official Authorities

The successful propagation of ethical standards at Russian companies will also require a change in the Russian mentality as regards the practice of reporting

unlawful or unethical conduct to executive bodies and official authorities. Such actions are commonly stigmatized as "squeaking" and "informing". Reporting in such cases is still rare in Russia, and is frequently perceived incorrectly by judges.

That said, western experience shows that reporting unlawful or unethical conduct can be a highly effective means of propagating ethical standards at companies, especially where material compensation is offered to those reporting the information.

For that reason, companies should create provision in their codes of ethics on the basis and procedure for reporting on unlawful and unethical conduct to the management. Naturally, guarantees should be provided regarding the independent and unbiased review of reported information and immunity from adverse consequences for the reporting party.

19. Anti-Corruption Measures

Preventing situations that could lead to corruption and rooting out instances of corruption at companies are integral parts of propagating ethical standards.

The driving force in business is competition, and the driving goal of the businessman is to win the competition game.

International experience shows that if a State fails to establish clear ground rules for competition (competition boundaries), then competition quickly takes on a lawless aspect (unfair competition, restrictive business practices, etc.).

One manifestation of this is when companies abandon the path of innovation and cost-cutting, etc., as a way to win the competition game, in favor of corrupt practices whereby the company pays a bribe to win a lucrative contract.

Each corrupt deal reflects the problems of the Russian economy as a whole and those of Russian business in particular. The spread of corruption in Russian business is eating away at business ethics, which in other countries constitute the very foundation of economic stability and efficiency. Its results can be seen in the inefficiency and lack of innovation that characterize Russian business, and also in the loss of interest among the entrepreneurial class in its natural role as the country's middle class, the keystone of State and civil society, which, in developed

countries, represents a key pillar in the system of social welfare as the main source of tax revenue to finance social advancement programs.

Anti-corruption measures need to encompass efforts to stamp out the "black cash slush funds" (undeclared revenue) run by companies and individual entrepreneurs, as these are the main source of cash for bribery.

The United States, one country with a consistent record of anti-corruption measures, has made major inroads in this regard. The 1934 Securities Act amended in 1970 prohibits all secret (unreported) payments.

The result is that bribes and corrupt payments are concealed from shareholders and auditing firms. Pursuant to the Securities Act, any unsupervised expenditure constitutes a serious infraction that can lead to criminal prosecution.

Transparency

One way of fighting corruption involves enforcing strict transparency as regards economic decision-making by government officials. Violations of the transparency regime should be regarded as corrupt practices regardless of whether or not adverse consequences can be demonstrated.

Fighting Infractions that Run Contrary to the Interests of Commercial Organizations

Unfortunately, such infractions lie outside the scope of state control. Although the Russian Federation Criminal Code regards many such infractions as criminal, criminal prosecution remains rare. This is despite the fact that such infractions often engender corruption, and, not only that, can have direct or indirect adverse consequences for the public interest. For instance, unlawful related party transactions, concealment of affiliation, and transfer pricing practices all result in tax evasion, the prevention of dividend payments, and asset stripping. This results in the stagnation of production, impaired tax collection, the absence of reasons for portfolio investors to invest, and hence, the embryonic state of the Russian capital market.

The Russian Government must reconsider its policy with respect to such infractions and make it feasible to take civil action (shareholder litigation against

mala fide managers, etc.) in such cases alongside the existing civil and administrative sanctions.

However, because the Russian State has yet to act by implementing the anti-corruption measures set forth above, companies must look to western experience and implement appropriate mechanisms themselves. Provision to that effect should be made in company by-laws. While public prosecution cannot be envisaged as a deterrent for non-compliance, there is scope for disciplinary and civil law deterrents. It is crucial for companies to integrate these key components of business ethics into their operations.

Companies are advised to incorporate provision on the following anti-corruption measures into their by-laws:

- The implementation of effective systems for controlling financial flows.
- Giving the board of directors watchdog and audit committees real powers.
- Setting up systems to monitor corruption prone areas of activity.
- Setting up systems of disciplinary and material sanctions for violations of the established anti-corruption procedures.

Chapter 2. Business Ethics Principles for Stakeholders

For the purposes of these Guidelines, stakeholders are deemed to include any groups whose interests overlap with a company's business, i.e. its shareholders, managers, business partners, customers, etc.

It is vitally important for companies to establish ethical rules and procedures governing relations between stakeholders. Three groups of stakeholders are objectively different insofar as their interests do not coincide: shareholders, directors and managers.

1. Business Ethics Principles for Shareholders

The goal of a shareholder is to extract income from a company. Income is extracted in two ways: dividends, and share price gains. As beneficial owners, shareholders bear the risk of losses if the company becomes loss-making or goes bankrupt, because here the share price falls and dividends are no longer paid.

Shareholders are further subdivided into two categories with distinct interests: majority shareholders and minority shareholders.

Majority shareholders look for long-term growth and lower risks. If asked to choose between receiving dividends and capitalizing profit, the majority shareholder will invariably opt for profit capitalization as this favors corporate stability and strategic development.

Minority shareholders' interests lie elsewhere. They have a short-term outlook: gain income from their stake, right now. For that reason, they favor dividends over capitalization of profit. However, minorities, like majority shareholders, also bear the risk of losses if the share price is impaired by the fact that the company reports losses. Therefore all shareholders are predisposed towards low risk transactions.

Companies are advised to implement the following principles of ethics for business with respect to majority shareholders:

- Do not ignore the material interests of minorities; pursue an equitable dividend policy.
- Consider the interests of managers, and in conjunction with the board of directors pursue a reasonable incentive policy; this will alleviate the risk of manager misconduct.
- Implement a plan to improve the professionalism and independence of the board of directors; this will help the board of directors to elaborate and implement optimal ethical standards at the company.
- Supervise the board of directors, including as regards the elaboration of ethical standards.

Principles of ethics for business for minorities:

- Do not allow shareholders to abuse their rights at the expense of the company's interests.
- Do not disseminate information that constitutes a commercial secret of the company.
- Require major shareholders and directors and managers to adhere to established ethical rules.

2. Business Ethics Principles for Directors

The main role of directors is to iron out the differences between shareholders and managers. This is why the board of directors has the task of establishing ethical boundaries and principles (this fact is stressed by western researchers).

In addressing this role, the board of directors must move beyond a mere formal approach towards achieving real and tangible independence of both shareholders and managers.

Companies are advised to implement the following principles of ethics for business for directors.

- Develop and approve ethical rules for the company.
- Consider the interests of all company stakeholders.
- Ensure effective supervision of managers to prevent misconduct and violations of ethical standards on their part.
- Supervise the implementation by managers of ethical standards at the company.
- Monitor company transparency and compliance with the legislation and company by-laws by shareholders, managers and employees.
- Elaborate and submit recommendations to shareholders on fair and reasonable dividend policies.
- Develop effective manager incentive systems.
- Report to shareholders with full and reliable information on the state of affairs at the company.

3. Business Ethics Principles for Managers

Managers' interests may for obvious reasons diverge from those of shareholders. Managers are not exposed to the risk of material losses. If the company collapses, the managers lose their jobs, not their property. For that reason, they are less risk averse than shareholders. If a high risk venture brings a profit, the manager will receive a bonus. If the company collapses because it overstretched the risk factor, the manager will find a new job. Managers take risks using the money of the beneficial owner, not their own money.

The fact that managers are not beneficial owners also entails the risk of misconduct with respect to the company, and, accordingly, with respect to the beneficial owners.

Ethical standards are useful in resolving these contradictions, as the law, for obvious reasons, cannot cover all scenarios. The law is only a workable deterrent when managers have unlawful aims or engage in willful misconduct.

Companies are advised to implement the following principles of ethics for business for managers.

- Do not abuse your authority.
- Do not deliberately inflict losses on shareholders.
- Immediately inform the board of directors in the event of a risk of losses.
- Implement the ethical standards elaborated by the board of directors.
- Carry out your functions with due care and initiative.
- Report to the board of directors in accordance with due procedure.
- Comply with the law and company by-laws and ensure compliance on the part of employees.
- Observe the interests of the employees by providing them with decent working conditions.

4. Business Ethics Principles - Relations with Employees

The principles of ethics for business are based on respecting the dignity of all employees and taking their interests into account.

Companies are advised to implement the following principles to govern interaction between the board of directors and management on the one hand and employees on the other:

- The overriding priority is the interests of the company and its employees.
- Collaboration between the company and its employees is based on common goals, respect and consideration for mutual interests, and the conscientious and genuine assumption of obligations and social partnership as the basis of the relationship between a company and its employees.
- The management and all employees and employee representatives will discuss all and any problems in accordance with the legislation of the Russian Federation in a context of constructive and effective dialog.

In the light of the principles for international business (Caux Declaration), executive bodies at Russian companies are advised to adhere to the following principles in their dealings with employees:

- Provide employees with employment and compensation that improves their standard of living.
- Ensure that employees' working conditions are not detrimental to their health and human dignity.
- Communicate in an honest manner with employees and ensure open access to information; restrictions on access to information should only arise in connection with legal imperatives and the interests of competition.
- Pay attention and react to the proposals, ideas, demands and complaints of employees.
- Participate in open dialog in the event of conflict.
- Avoid discriminatory policies and guarantee employees equal rights regardless of gender, age, race or religion.
- Place employees in positions where their professional capacities will bring the greatest benefit.
- Ensure safe work practices to avoid accidents and work-related illnesses.
- Encourage professional advancement and help employees to obtain the skills and knowledge needed to perform to the best of their abilities.

- Avoid business decisions that lead to heavy job losses.
- Collaborate with labor unions, government bodies, and other labor organizations.

5. Business Ethics Principles - Relations with Non-Managing Investors

This section deals with principles of ethics for business with respect to investors who have no role in managing the company, i.e. lenders, corporate bond holders, and other creditors investing in the company on an onerous basis who have no role in managing the company.

The importance of an ethical approach to relations with investors of this category lies in the fact that they have no access to corporate information (unlike shareholders, directors and managers). This category of investor relies on the information released by the company and the genuineness of such information.

The Parmalat case shows that financial reporting fraud can fool such investors and inflict huge losses when loans have to be written off because the borrower is penniless.

For that reason, companies that adhere to ethical standards in their dealings with investors must be as transparent as possible (within the limits of commercial secrecy and restricted access regimes). If the interests of such investors are threatened in the slightest way, the company should make every effort to minimize the adverse consequences.

Corporate ethical codes should contain specific provisions on the company's obligations with respect to investors.

6. Business Ethics Principles - Relations with Competitors

Healthy economic competition is the key to fair distribution of goods and services.

In the interests of ensuring healthy competition, Russian companies are advised to implement the following principles of ethics for business with respect to competitors:

- Promote the development of open markets for commerce and investment.
- Facilitate competition, as competition is beneficial for society, the environment, and living standards.
- Refrain from unethical competitive tactics, including "black PR".
- Facilitate competitive conduct, as competitive conduct testifies to respect between competitors.

7. Business Ethics Principles - Relations with Suppliers

Mutual respect is the key ethical principle governing relations between companies and their suppliers.

Russian companies are advised to adhere to the following ethical principles in their dealings with suppliers:

- Strive to achieve fair and honest dealings with suppliers based on correct pricing, licensing, and trade rights.
- Warrant to suppliers that the company's business renounces force and frivolous law suits.
- Facilitate the development of long-term stable relations with suppliers in recognition of their input in raising the value, quality, competitiveness and reliability of the company's business.
- Share non-confidential information with suppliers and involve them in business planning processes.

- Settle with suppliers on a timely basis and respect the terms of contracts.
- Select and stick to suppliers that renounce discrimination, corruption and practices that offend human dignity.

8. Business Ethics Principles - Relations with Customers

The key ethical principle governing the dealings of a company with its customers is respect for their human dignity, regardless of whether the customer has purchased the company's product directly or indirectly.

Russian companies are advised to implement the following ethical principles in their dealings with customers:

- Provide customers with high quality products that meet their needs and expectations.
- Adhere to the principle of honest dealings with customers in all aspects of business.
- Strive to ensure that the company's products will maintain or improve customers' health and safety and the safety of the environment.
- Ensure that the company's products respect human dignity, including in matters of marketing and advertising.
- Avoid discriminating against customers on the basis of gender, age, race and religion.
- Respect the cultural integrity of customers.

Chapter 3. Recommendations on Business Ethics Documents Development

Functions of Business Ethics Documents

Business ethics documents contain the collection of ethical rules and standards of conduct shared by members of a given corporate community (shareholders, directors, managers, employees). The business ethics documents help creating certain models of conduct and joint activities as well as intra-corporate mechanisms to ensure their application by members of a corporate community in relations between themselves and with external parties (government, business partners, consumers, etc).

As business ethics documents are approved by the board of directors or by a general meeting of shareholders, they become internal (local) documents of a company and acquire certain legal significance. Their breach may result in sanctions against perpetrators as stipulated by the charter and the company's internal documents.

Business ethics documents may (and do) play the widest range of roles. Foreign and Russian practice demonstrates that such documents used by leading companies differ greatly from the point of view of their structures, formats and contents. Their differences are conditioned by different objectives faced by a corporation when it adopts and applies its business ethics document. Nevertheless, all tasks to be resolved by adoption of a corporate business ethics document may be narrowed down to implementation of the two basic functions:

- Reputation
- Management

The first function is focused on increasing the confidence of potential investors (shareholders, banking institutions, investment companies) and business partners (clients, suppliers, contractors, etc) on the company. Existence of a

business ethics document in the company is already perceived as a kind of a brand, an evidence of its successful operations and a prerequisite of high business reputation. Adoption and introduction of a business ethics document into a company's operations raises its investment attractiveness, and its image goes up to a qualitatively new level.

At the same time, the management function of a business ethics document should not be underestimated. It provides for regulation and streamlining of corporate conduct in complicated and ambivalent situations from the point of view of compliance with principles of ethics, honesty and fair play. The management function shall be ensured through:

- Promotion of ethical aspects of the corporate culture among stakeholders inside the corporation (shareholders, directors, managers and employees). A business ethics document introduces corporate values in a company, crystallizes corporate identity and, as result, enhances its strategic and operational management.
- Prioritization of relations with external stakeholders (suppliers, contractors, consumers, creditors, etc).
- Determination of principles and procedures governing the decision-making process in complicated ethical situations.
- Enumeration and specification of unacceptable conducts from the ethical point of view.

Types of Business Ethics Documents

As a rule, documents describing business ethics principles are initiated by enterprises or organizations to supplement the legislation, which governs their sphere of operations (for example, corporate governance).

Declarations and codes (from Latin "codex" meaning a law book) are the most commonly used business ethics documents.

Declarations and codes represent specific books of statutes for internal application – one of the most efficient forms of business regulation and control at an enterprise or organization.

Presently there exist two types of business ethics documents:

- Relatively brief documents drafted usually at first stage of corporate establishment to consolidate internal progressive forces. Often such documents essentially represent ethical declarations of intentions and are designed to evidence self-awareness, progressive stance and responsibility of the enterprise or organization.
- Regulatory documents with detailed ethical principles and business guidelines, which contain ethical obligations in relation to various business relationship groups. Today corporations and companies, understanding that business ethics is a powerful tool to raise discipline and improve performance and operating efficiency, develop codes of corporate ethics which itemize operations of different business units and business relations with partners, suppliers, consumers, potential business partners, competitors, shareholders, potential investors, local population, mass media representatives, etc. Ethical corporate behavior is achieved not only through development of codes of corporate ethics but also through monitoring their compliance. That is why the most professionally executed business ethics documents contain description of compliance controls and possible sanctions for violation of the adopted principles. Such documents, as a rule, are drafted by dedicated project teams with participation of competent representatives of every business unit and

interested parties, usually with the assistance of invited business ethics consultants. The resulting codes generally take into account traditions and precedents, international experience, national and local peculiarities, specific operational characteristics of an enterprise or an organization and become an additional resource to improve corporate efficiency.

Principles of Business Ethics Documents Development

As a rule, business ethics documents have pre-defined structures:

The introductory part (preamble, introduction), depending upon its volume and type of the business ethics document, may contain description of the development history and mission (objectives and tasks) of a declaration, charter or a business ethics code.

The next part of the business ethics document usually enumerates the essential basic (general, ecumenical) or international business ethics principles, as well as ethical (professional) traditions inherent to the specific business environment or a specific company.

Next, business ethics documents usually formulate basic ethical business conduct standards in the particular business sphere and operational regulations of an enterprise or an organization in relation to its own employees or members as well as to external business relations' participants. Degree of itemization and regulation of business ethics issues depends on peculiarities of the enterprise or organization, namely, the number of business relations' participants, structure and level of development, strategic objectives and missions as well as other specific circumstances and conditions.

As was mentioned in the previous section of these guidelines, ethicality of an enterprise or organization is achieved not only through development of business ethics codices but also through control over their compliance. Business ethics documents of advanced enterprises or organizations more often comprise a section to describe the system of control over compliance of corporate business ethics, for example, functions and operational procedures of a ethics commission and sanctions for violation of documented ethical principles.

Public character of a business ethics document is an important factor, that is why in addition to documenting and placement of corporate ethics codices at accessible locations at corporate premises, common practice provides for provision of business ethics documents to business partners and placement of such documents on corporate web pages.

Appendices: Samples of business ethics documents

1. Russian Business Ethics Code "12 Principles of Doing Business in Russia" (1998, Russian Chamber of Commerce).
2. Corporate Ethics Charter (2003, the Russian Union of Industrialists and Entrepreneurs).
3. Business Ethics Excerpts from the Corporate Governance Code (2002, the Federal Securities Market Commission).
4. Independent Director Code (2003, Independent Directors Association).
5. Declaration of Principles of the Professional Community of Corporate Directors (2003, Russian Institute of Directors).

The Chamber of Commerce & Industry of the Russian Federation
Twelve Principles for Business in Russia

Personal principles

1. Profit is of utmost importance, but honor is more valuable than profit.

This principle requires the least commentary. Profit is the measure of success in business; profit is also the key goal of enterprise. This is irrefutable. Opinion diverges when it comes to the means and cost of achieving that goal. Given that the relationship between means and goal is central to the issue of ethics, it needs to be clearly stated that moral compromise is too dear a price to pay even for large profits.

2. Respect all those who work for a common purpose; this is a basis for sound relations and self-respect. Respect for others and self-respect are secured by adhering to one's business commitments.

A business partner's right to human respect must be recognized. This is the moral and psychological basis for effective business collaboration.

3. Refrain from violence or threat of violence as a means to achieving a business goal.

It is a commonly known fact that in today's Russia, many business decisions are made under external pressure. This can take the form of pressure from business partners, corrupt officials, or the criminal underworld. It is also commonly known that business often use organized crime to resolve disputes owing to the poor system of arbitration.

Professional principles

4. Do not conduct business beyond your means.

This principle is a highly important and frequently overlooked aspect of business: the ability to measure risk and avoid the passion without which, strange as it may seem, genuine enterprise is not possible. Enterprise always includes elements of passion. Sound life experience is required to handle one's own ambition.

5. Live up to the trust others have in you; trust is the basis of enterprise and the key to success. Strive to cultivate a reputation as an honest, competent and decent partner. Act in the manner you would have your best business partner act.

Mutual trust is an important, if not the single most important, psychological component of successful social interaction. No legal system, not even the most exhaustive, can replace trust.

Likewise, where trust reigns, legal regulation is redundant. Business leaders, wherever they are surveyed, most frequently name reliability, competence and

decency as the three most important qualities in business. This comes as no surprise, for these qualities underpin predictability and limit uncertainty. Few other qualities are named so frequently, one being cultural affinity: Americans prefer doing business with Americans, Germans with Germans, etc. One illustrative and striking fact sticks out in this regard: Russians accord a slight preference to business partners from the so-called "civilized" countries over their fellow countrymen. This means that Russians do not see their fellow Russians as sufficiently reliable, competent and decent partners.

6. Compete properly. Refrain from bringing business conflicts to court. The most reliable partner is he who also gains from a transaction.

Current business negotiations theory and practice shows that trust is boosted sharply if the partners follow the "win-win" negotiating strategy. Many observers have noted that Russian businessmen prefer a more ancient and primitive strategy whereby only one party will win. This confrontational strategy is deeply rooted in the class struggle ideology. However, the contemporary business world prefers the win-win approach not because of its moral superiority, but because the benefit of collaboration is greater than the losses of confrontation.

Russian civic principles

7. Observe the law and obey the lawful government.

Russian entrepreneurs have always had an acute sense of social responsibility: to the country, to society. Relations with government are just about the most important and painful issue for Russian entrepreneurs. Historically speaking, Russian entrepreneurs have always been prone to oppression on the part of the State. The Russian entrepreneur has always been removed from the State, as the institution that represents society, by a huge social class: the aristocracy in pre-revolutionary times, the bureaucracy today, more than two thirds of which consists of the former nomenclatura.

Russian entrepreneurs have traditionally striven to win the benevolence of the State, either by bribing it or else, more often, by avoiding it. In this way it has put itself in a dependent and vulnerable position: despite the nature of the relationship with the State in pre-revolutionary Russia, even then entrepreneurs understood the role of government as a "necessary condition for effective business". The alternative, they recognized, could only be chaos. Therefore, entrepreneurs must choose between two evils by selecting the lesser of the two. That said, the recommendation to comply with the law and obey the government should not be construed as an exhortation to submission.

8. Join forces with like-minded people and organizations to influence government and legislation in keeping with these principles

During the last ten years that preceded the Revolution, industrialists and entrepreneurs began emerging as a political force and defending their interests in a lawful and civilized manner in parliament rather than in officials' offices.

9. Work for the good of humanity, rather than for gain and vain glory. Do not seek public recognition for your work

The reference in the Code to good and evil makes sense, if only as a measure of where we are at both individually and as a society.

The recommendation to profess genuine goodness is important: it should not be done for gain or vain glory. In today's context of huge media influence and the increasing role of advertising and PR agencies, it can be difficult to draw a line between good businesses that work for the good of other people, and businesses that only appear to do so. The criterion for drawing that line is that he who does good for gain seeks recognition from others and is offended when such recognition is not forthcoming and dissatisfied when it is.

Entrepreneurs need to do good in order to maintain and strengthen their own moral and psychological base and to make correct business decisions.

Citizen of the Earth principles

10. Inflict the minimum damage on the environment in business

The international community is adopting an ever more organized approach to natural resource utilization and environmental regulation. The coming years will see a range of international laws take effect that will close world market access to products that are produced in violation of environmental law.

11. Find the strength to resist criminality and corruption. Make it unprofitable for all concerned

According to independent international organizations, Russia is one of the most corrupt countries in the world. There is a host of reasons for that: inadequate legislation, a weak state, etc. However, one of the main reasons is the attitude of entrepreneurs to the problem, their inability to present a united front and to organize coordinated measures against this plague.

12. Display tolerance to representatives of other cultures, creeds and countries. They are no better and no worse than us, they are simply different

Perceiving representatives of other nationalities and countries from the point of view of one's own culture, as well as culturo-centrism, and ethnocentrism, are integral components of the human condition. As the world economy becomes ever more integrated, the ability to work out rational and measured positions without falling into extremist traps will become an ever more important moral and psychological issue.

Corporate Ethics Charter of the Russian Union of Industrialists and Entrepreneurs

We, representatives of the business community of the Russian Federation,

being aware that building a foundation for a law-based society and promoting an efficient market economy are unfeasible without creating a stable system of corporate relations based on equality and fair competition, and

recognizing our responsibility for the future of market reforms in Russia and the priority of the interests of the Nation and the Russian Society, and observing the universal moral rules and ethical standards in our actions and decisions,

undertake, of our own free will, to follow the following corporate ethics standards in our business activities:

- ❑ Conduct business activities based on the principles of decency, fairness and honesty in relations with partners and competitors.
- ❑ Promote the strengthening of the ownership system and abstain from any actions that may undermine its principles.
- ❑ Proceed from the real meaning of laws, avoid employing various interpretations contrary to their spirit and abstain from using formal procedures to achieve the goals incompatible with corporate ethical standards.
- ❑ Refrain from actions that build up social tension within the society.
- ❑ Avoid exerting unlawful pressure to influence decisions by judicial, law enforcement or other authorities in achieving corporate goals.
- ❑ Show respect toward competitors, renounce unlawful forms of competition and use only civil methods compliant with corporate ethics.
- ❑ Take due care to maintain own business reputation and the reputation of Russian business in general, avoid participating in dissemination of knowingly false or unconfirmed information directly or through third parties.
- ❑ In the event of a conflict of interests, seek resolution of the dispute through negotiations and use out-of-court dispute resolution mechanisms provided by the RUIE Commission on Corporate Ethics.
- ❑ Respect the decisions of the RUIE Commission on Corporate Ethics.

**Excerpts from the Corporate Governance Code
recommended for Russian companies
by the Federal Securities Market Commission**

Introduction

"Corporate governance" is a broad term encompassing various activities associated with the management of business entities. Corporate governance affects the economic performance of business entities and their ability to raise capital required for economic growth. Improving corporate governance in the Russian Federation is a crucial measure needed to increase the inflow of both domestic and foreign investments in all industries of the Russian economy. One of the possible ways of such improvement is to introduce certain standards developed based on the analysis of corporate governance best practice.

Corporate governance standards are applicable to business entities of all types, but are especially important for joint stock companies, in which ownership and management are often set apart and corporate conduct conflicts are most likely. Accordingly, the Code has been developed first and foremost for joint stock companies accessing capital markets. However, it may be used by any other business entities.

Corporate governance standards are designed to protect the interests of all shareholders, irrespective of the size of their stakes. The higher the level of shareholder protection, the larger investments will Russian joint stock companies (the "companies") be able to attract, which will have a positive impact on the Russian economy in general.

Corporate conduct should ensure a high level of business ethics in relations between market players.

Outlined below are the key reasons underlying the development of the Code of Corporate Conduct (the "Code"). Companies may design their own corporate conduct codes in line with the

recommendations of the Code or incorporate certain provisions thereof into their internal regulations. Depending on a company's specific organizational, legal and capital structure, industry and other peculiarities, it is free to use those recommendations of the Code that it will deem suitable for itself.

1. Russian legislation already reflects most of the universally recognized corporate conduct principles, however their practical implementation, including judicial enforcement, and corporate conduct traditions are only starting to evolve.

Current Russian corporate laws are relatively young, but already reflect most of the universally recognized corporate conduct principles.

On the other hand, the principal corporate conduct issues have more to do with the absence of a long-standing practice of corporate relations rather than the quality of legislation, and corporate conduct traditions are only starting to evolve.

2. Proper corporate conduct cannot be ensured by legislative rules only.

It is obvious that legislation does not, and cannot in principle, regulate all issues arising in the process of corporate management.

In the first place, legislation should stipulate only general obligatory rules. It cannot and should not strive to regulate in detail all matters relating to corporate activity. Detailed regulations hinder corporate activity as each company is unique and no law can fully recognize the specifics of its operations. Therefore, legislation frequently does not contain any rules governing the relevant relations (and such lack of regulation is anything but a gap in legislation in many cases), or stipulates only general rules leaving the choice of conduct options at the discretion of companies.

In the second place, legislation is unable to timely respond to changes in corporate conduct practice, as legislative amendments require significant time.

3. Many corporate conduct issues are beyond the scope of legislation, being ethical rather than legal in nature.

Many legislative provisions that govern corporate conduct are based on ethical norms. Examples of such provisions are civil law requirements which stipulate, among other things, that in the absence of relevant laws, governance should be taken from the principles of good faith, reasonableness and fairness and civil rights exercised in a reasonable and bona fide manner. Thus, existing legislation incorporates the moral and ethical standards of reasonableness, fairness and good faith.

At the same time, such legislative provisions are not always sufficient to ensure due corporate conduct. Therefore, companies should follow not only legislative rules but also ethical standards that are often stricter than laws.

The ethical standards used in the business community are the prevailing system of rules of conduct and business practices beyond the scope of legislation that shape positive expectations vis-à-vis the conduct of parties to corporate relations.

The ethical standards of corporate conduct form consistent conduct stereotypes common for all parties to corporate relations.

In addition to being a moral obligation, the observance of ethical standards helps companies to avoid risks, supports long-term economic growth and promotes successful business activity.

Ethical standards, along with laws, shape the company's corporate conduct policy based on the balance of interests of shareholders and management, which is conducive to strengthening the company's position and maximizing its profit.

4. The Code contains recommended but non-binding corporate conduct best practices.

The Code is perceived as a critical element in developing and improving corporate conduct practices in Russia, and is to play an essential educational role in introducing corporate governance standards in Russia and promoting further development of the Russian stock market.

The Code was developed in accordance with the provisions of current Russian legislation and with account of the prevailing Russian and foreign corporate conduct practice, ethical standards, and the

specific needs and environment of Russian companies and capital markets at their present stage of development.

The Code's provisions are based on recognized international principles of corporate governance formulated by the Organization for Economic Cooperation and Development (OECD), which underlie the corporate governance codes and similar documents adopted in recent years in a number of countries.

The Code represents a set of recommendations. The use of its provisions by companies should be a voluntary election based on the desire to raise the appeal of the company in the eyes of current and potential investors.

The Code outlines the major principles of corporate conduct best practices that may be employed by Russian companies in building their corporate conduct systems, and contains recommendations on practical implementation of these principles and on the relevant disclosures.

In developing their corporate conduct policies, companies may at their own discretion select the recommended rules and procedures that they will follow and/or develop other rules and procedures based on the corporate conduct principles outlined by the Code.

Chapter 1. Principles of corporate conduct

Corporate conduct should be based on respecting the rights and valid interests of all stakeholders and facilitate efficient company operations, including maximizing the value of corporate assets, creating jobs and supporting financial strength and profitability.

Trust among all parties to corporate conduct forms the foundation of efficient operations and investment appeal of a company. The principles of corporate conduct outlined in this chapter are designed to generate trust in relations arising in the process of company management.

The principles of corporate conduct for the groundwork for corporate governance system formation, operation and improvement in companies.

The principles of corporate conduct outlined in this section for the basis for the recommendations provided in subsequent section and the key values that should be taken as guidance in the absence of such recommendations. These principles have been formulated with account of OECD corporate governance principles, international corporate conduct practice and the experience accumulated in Russia since the adoption of Federal Law "On Joint Stock Companies".

1. The practice of corporate conduct should be such as to provide shareholders with the real opportunity to exercise the rights associated with their participation in the company.
 - 1.1. Shareholders must have access to secure and efficient methods of share ownership registration, as well as the opportunity to freely and promptly dispose of their shares.
 - 1.2. Shareholders are entitled to participate in managing the affairs of the company by deciding on key issues concerning the company's activities at the general meeting of shareholders. To support this right, it is recommended that:
 - (1) the procedure used for notifying shareholders of the general meeting allow shareholders to duly prepare for the meeting;
 - (2) shareholders are provided access to the list of persons authorized to participate in the general meeting;
 - (3) the place, date and time of the general meeting of shareholders be set in such a way as to provide shareholders with a real and uncomplicated opportunity to participate;
 - (4) shareholders' rights to demand the convocation of a general meeting and suggest matters for inclusion in the agenda are not subject to unreasonable requirements for authenticating such rights;
 - (5) each shareholder is provided the opportunity to exercise voting rights in a way that is the easiest and most convenient for the shareholder in question.
 - 1.3. Shareholders should be provided the opportunity to share in the profits of the company. To support this right, it is recommended that companies:

- (1) establish transparent dividend calculation and payment mechanisms understandable to shareholders;
- (2) provide sufficient information allowing a precise understanding of whether dividends may be paid and in what manner;
- (3) rule out the possibility of misleading shareholders on the financial position of the company when paying dividends;
- (4) ensure such dividend payment procedure that is not associated with unreasonable complications;
- (5) establish measures to be applied to executive bodies of the company in the event of incomplete or late payment of declared dividends;

1.4. Shareholders are entitled to receive regular, timely, accurate and complete information about the company. This right is exercised through:

- (1) providing shareholders with complete information on each matter on the agenda in anticipation of a general meeting;
- (2) including in the annual report presented to shareholders the necessary information allowing them to evaluate the company's performance for the year;
- (3) introducing the position of corporate secretary (the "corporate secretary") responsible, among other things, for ensuring shareholders' access to information concerning the company.

1.5. Shareholders may not abuse their rights.

Shareholders may not undertake any actions with the sole intention to harm the interests of other shareholders or the company or abuse their rights in any other way.

2. Corporate conduct practices should ensure equal treatment of shareholders owning an equal number of shares of the same type (class). All shareholders must have access to effective remedies in the event of violation of their rights. The observance of this principle is ensured through:

- (1) introducing such general meeting proceedings that ensure a reasonable equal opportunity for all attendees to voice their opinion and raise questions that concern them;
- (2) introducing proceedings for major corporate actions that enable shareholders to obtain complete information thereon and safeguard shareholders' rights;
- (3) a prohibition on transactions with the use of insider or confidential information;
- (4) election of the Board of Directors, Managing Board and the General Director in accordance with transparent procedures that include the provision of complete information on nominees to shareholders;
- (5) obliging members of Managing Board, the General Director or other persons who might be recognized as having an interest in a transaction to provide information on such interest;
- (6) taking all necessary and possible measures to settle conflicts between the company's managing bodies and any shareholder(s) or between shareholders where such conflict (the "corporate conflict") affects the interests of the company.

3. Corporate conduct practices should ensure strategic management of the company's activities by the Board of Directors and its efficient control over the executive bodies of the company and accountability of Board members to shareholders.

3.1. The Board of Directors determines the corporate development strategy and ensures efficient control over its financial and business activities. To do so, the Board of Directors approves the priority areas of company activities, its financial and business activity plans and internal control procedures.

3.2. The composition of the Board of Directors should facilitate the most efficient discharge of its functions. For this, it is recommended that:

- (1) members of the Board of Directors be elected in accordance with transparent procedures that take into account the diversity of opinions held by shareholders, ensure that the composition of

the Board of Directors is in compliance with statutory requirements, and allow the election of independent directors (the "independent directors") onto the Board;

- (2) the Board of Directors include a sufficient number of independent directors;
- (3) quorum requirements for Board of Directors meeting ensure the participation of non-executive and independent directors.

3.3. It is recommended that members of the Board of Directors actively participate in meetings of the Board and its committees.

It is recommended that the meetings of the Board of Directors be held:

- (1) on a regular basis and in accordance with a specific schedule;
- (2) with personal attendance or in absentia depending on the importance of the business transacted.

It is recommended that the Board of Directors include committees for preliminary deliberation of key matters falling under the scope of authority of the Board of Directors:

- (1) the strategic planning committee raises the efficiency of company operations in the long-term perspective;
- (2) the audit committee ensures the Board of Directors' control over the financial and business activities of the company;
- (3) the HR and compensation committee assist in filling management positions with qualified specialists and creating the requisite incentives for their efficient work;
- (4) the corporate conflicts resolution committee helps prevent and efficiently resolve corporate conflicts.

The Board of Directors may consider appointing other committees, such as the risk management committee and the ethics committee.

3.4. The Board of Directors oversees and ensures the efficient operation of the company's executive bodies.

To achieve this goal, it is recommended that the Board of Directors be authorized to:

- (1) suspend the General Director (managing company, managing director);
- (2) establish the requirements for candidates to the position of General Director (managing company, managing director) and members of the company's Board of Directors;
- (3) approve the terms and conditions of contracts with the General Director (managing company, managing director) and members of the company's Board of Directors, including compensation and other emoluments.

4. Corporate conduct practices should enable the executive bodies of the company to efficiently manage the company's day-to-day activities in a reasonable manner, diligently and for the sole benefit of the company, and ensure the accountability of the executive bodies of the company to the Board of Directors and shareholders.

4.1. It is recommended that companies appoint a collective executive authority (Managing Board) responsible for resolving the most complex issues related to the management of the company's day-to-day activities.

4.2. The composition of the company's executive bodies should enable the most efficient discharge of their functions. To achieve this,

- (1) the General Director and members of the Managing should be elected in accordance with transparent procedures that include the provision of complete information on nominees to shareholders;
- (2) in adopting a decision of the delegation of sole executive authority powers to a managing company (managing director), shareholders should have complete information on such managing company (managing director), including information on risks associated with the delegation of

powers, the validation for such delegation, the verification of whether the managing company (managing director) has the funds to reimburse the company's losses if they arise through their fault, and a draft contract to be concluded with the managing company (managing director);

(3) the General Directors and members of the Managing Board should have sufficient time for discharge of their duties.

4.3. It is recommended that executive bodies act in accordance with the company's financial and business activity plans.

4.4. It is recommended that the remuneration of the General Director (managing company, managing director) and members of the collective executive body be commensurate with their qualifications and actual contribution to the company's performance.

5. Corporate conduct practices should ensure timely disclosure of complete and accurate information concerning the company, including its financial position, performance, shareholder and management structure to enable informed decisions by shareholders and investors.

5.1. Shareholders should have equal access to identical information.

5.2. A company's information policy should guarantee free and uncumbersome access to information about the company.

5.3. Shareholders should have access to complete and accurate information, including on the company's financial position, operating performance and management, major shareholders and material facts affecting its financial and business activities.

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

6. Corporate conduct practices should take into account the interests of stakeholders, including employees, guaranteed by law and encourage active cooperation between the company and stakeholders to augment corporate assets and the value of shares and other corporate securities and create new jobs.

6.1. To ensure the company's efficient operations, executive bodies should take into account the interests of third parties, including creditors, the state and municipal entities having jurisdiction over the place of location of the company or its structural subdivisions.

6.2. The company's managing bodies should ensure that employees are motivated to contribute to the company's efficient operations.

7. Corporate conduct practices should ensure efficient control over the financial and business activities of the company to protect the rights and valid interests of shareholders.

7.1. It is recommended that companies maintain efficient on-going control over financial and business activities. To do so, it is recommended that company activities be based on a financial and business activity plan approved annually by the Board of Directors.

7.2. It is recommended that companies segregate the powers of persons and functions responsible for the development, approval, application and evaluation of internal controls within the corporate system of control over the financial and business activities of the company. The development of internal control procedures should be the responsibility of the internal control function (the "control and audit function") independent of the company's executive bodies, while their approval should be the Board of Directors.

7.3. It is recommended that companies arrange efficient interaction between internal and external auditors. To achieve this goal,

(1) prospective auditors should be evaluated by the audit committee;

(2) reports by the auditing firm (auditor) should be submitted for review to the audit committee prior to presentation to the general meeting of shareholders for approval.