

Russia

DECLARATION

OF PRINCIPLES OF THE PROFESSIONAL COMMUNITY OF CORPORATE DIRECTORS

Drafted by the Russian Institute of Directors
as part of its chartered work
on consolidating the professional community of corporate
directors in Russia



with support of:

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CHAPTER 1

GOALS AND ACTIVITY AREAS OF THE PROFESSIONAL COMMUNITY OF CORPORATE DIRECTORS

Preamble

Global economic developments clearly show the need to improve the systems of corporate governance. This issue is particularly important for Russia.

A key reason behind poor corporate governance in Russian companies is low professionalism of corporate directors in joint-stock companies. It is related to the boards' lack of professional corporate directors, including non-executive independent directors, who have the required expertise both in governance in general and in organizing the board work and comply with the professional and ethical principles established and controlled by the professional community of corporate directors.

The substantial advancement of corporate directors' professionalism, their readiness to keep to the clearly formulated ethical principles, nomination of an increasingly larger number of professional corporate directors to the board by shareholders is becoming the decisive factor of raising the quality of corporate governance in Russia, i.e., lower investment and management risks in the companies' operations, making the companies more attractive for investments, their strategic development and higher capitalization in the interests of all shareholders, stakeholders and the entire society. Professionalism of the board — the main link in the corporate governance system — is becoming the decisive indicator for investors and the guarantor that interests of all shareholder groups, including the State, will be protected.

Well aware that the development of corporate governance as a key prerequisite for advancing Russia's economy is of great importance, the largest Russian issuer companies established non-profit partnership "Russian Institute of Directors" (RID) in 2001. Its goal is to draft, put in place and monitor corporate governance standards in Russia and consolidate and develop the professional community of corporate directors. Since 2002, the Russian Institute of Directors has been giving focused training of staff for the companies that are leaders of Russian business. A large group of board members, top managers and company secretaries received special training in RID in the key aspects of corporate governance and are included in its alumni files. Until recently, the database of these top-quality corporate governance professionals was used mostly by RID member companies. However, business practice shows that the strengthening tendencies of economic growth, Russia's better investment attractiveness and an increasing flow of investment brought about the need to consolidate the emerging community of corporate directors on the national scale. There is also a need to formulate and document the professional standards and ethical norms of its work and build a mechanism of enforcing these principles and expanding the professional corporate directorship in the Russian companies' practices. The advancement of corporate governance practices in some Russian companies and the gradual improvement of their transparency are the basis for such actions. One evidence of the Russian business' stronger interest in the better corporate governance was the establishment of the National Council on Corporate Governance as a non-government forum which united the CEOs of the largest Russian companies.

Activities on consolidating the professional community of corporate directors were discussed at the 1st National Congress of Corporate Directors in 2002. Guided by its ideas, RID drafted the code of professional and ethical principles and qualification and other requirements for the professional community of corporate directors. It also formulated the idea of building the National Register as the open database of persons who have extensive managerial experience, knowledge and skills of organizing the work of the board of directors and are committed to comply with the professional standards and ethical norms in their positions of corporate directors.

The concept of the National Register of Professional Directors and the *Declaration of Principles of the Professional Community of Corporate Directors* were co-drafted by RID Expert Council and other foreign and Russian corporate governance experts and practitioners. The discussions resulted in this draft *Declaration of Principles of the Professional Community of Corporate Directors* as the code of principles and requirements of formulating, developing and overseeing the work to be done by members of the professional community of corporate directors included in the National Register.

Main Goals of the Professional Community of Corporate Directors

1. Strategic aim of composing Boards of Directors of Russian companies of corporate directors registered in the National Register of Professional Corporate Directors is implementation of the best corporate governance standards into practice of such Boards of Directors and joint stock companies at large - to downscale investment risks, raise investment attractiveness and capitalization of Russian joint stock companies due to professionalism of Boards of Directors members, who have gone through qualification procedure and act in compliance with professional and ethical principles of this Declaration
2. Consolidate and coordinate the work of persons who act or plan to act as members of Boards of Directors, in order to expand the scope of work of this professional community, state and reinforce the high professional status of its members, provide for the joint protection of its members' reputation and other lawful interests, which meets the interests of the Russian companies, shareholders and the entire national economy.
3. Refine the effective legislation by codifying and incorporating the requirement that professional corporate directors, including those put on the National Register, must be involved in corporate governance in order to provide the proper protection of shareholder interests, business development and economic growth of Russia at large.

4. Improve the quality of corporate governance in Russia by developing the practice of making the boards of directors in joint-stock companies mostly from professional directors, including those in the National Register, who meet high qualification requirements and act under the supervision of the professional community Board in strict compliance with the accepted professional and ethical principles.
5. Provide administrative, expert, resource, qualification, information and other support to members of the professional community of corporate directors.
6. Enact, develop and collectively supervise compliance with the code of professional and ethical principles, qualification and other requirements by members of the professional community of corporate directors – corporate directors included in the National Register.

**Main Activity Areas
of the Professional Community of Corporate Directors**

1. Promote activities of Professional Community of Corporate Directors and raise awareness of the necessity of good corporate governance.
2. Contribute to the drafting and putting in place corporate governance standards, improving the legislative framework and other laws and regulations on corporate governance in Russia.
3. Establish and keep the National Register of Professional Corporate Directors.
4. Provide top quality educational services in corporate governance and related fields, including opportunities for continuous improvement of professional qualification, to members of the professional community of corporate directors.
5. Hold forums of the professional community of corporate directors, arrange for the sharing of experience by the community members and their participation in Russian and international panels and forums on corporate governance.
6. Monitor compliance with the code of professional and ethical principles and qualification and other requirements by members of the professional community of corporate directors.
7. Develop co-operation with shareholders of Russian companies.
8. Analyze efficiency of Russian JSCs Boards of Directors.
9. Work out and adopt by the Professional Community of Corporate Directors technologies (orders and procedures) of operation recommended to be followed by members of the community.

CHAPTER 2

CONTENT AND PURPOSE OF THE DECLARATION OF PRINCIPLES OF THE PROFESSIONAL COMMUNITY OF CORPORATE DIRECTORS

The Declaration of Principles of the Professional Community of Corporate Directors (“DeclarationB) is adopted by a forum (Congress) of members of the Professional Community of Corporate Directors as a code of principles and requirements that describe and regulate the work of corporate directors included in the National Register of Professional Corporate Directors.

The Declaration includes the following chapters:

1. Goals and activity areas of the Professional Community of Corporate Directors.
2. Content and purpose of the Declaration of Principles of the Professional Community of Corporate Directors.
3. Professional principles of members of the Professional Community of Corporate Directors.
4. Ethical principles of members of the Professional Community of Corporate Directors.
5. Qualification requirements of the Professional Community of Corporate Directors.
6. Procedures of the National Register of Professional Corporate Directors.
7. Oversight of member compliance with the Declaration of Principles of the Professional Community of Corporate Directors.

Amendments and additions to chapters 1-5 of the Declaration will be the competence of the forum of the professional community of corporate directors, i.e., persons included in the National Register of Corporate Directors. Amendments and additions to chapters 6 and 7 of the Declaration will be the competence of the Board of the professional community of corporate directors.

The Declaration audience includes individuals and legal entities that are interested in effective corporate governance:

- Shareholders and other stakeholders — for establishing the boards of directors of joint-stock companies and limited liability companies (“CompaniesB) by including professional corporate directors from the National Register of Professional Corporate Directors;

- Members of boards of directors who currently have seats on the boards and share the provisions of this Declaration, in particular, its requirements to qualification, professional experience, ethical norms and enactment mechanism;
- Persons, who plan their professional career in corporate governance – for using the Declaration principles and requirements as the entry requirements for joining the professional community of corporate directors.

This Declaration is based on the documents that describe principles and aspects of the best Russian and international corporate governance practices, expertise of the Russian Institute of Directors and its partner organizations, and recommendations and opinions of Russian and foreign companies and relevant experts.

The Declaration is an important instrument for implementing the Code of Corporate Conduct.

CHAPTER 3

PROFESSIONAL PRINCIPLES

OF THE PROFESSIONAL COMMUNITY OF CORPORATE DIRECTORS

3.1. Principle of Legality and Responsibility

- 3.1.1. A professional corporate director will be guided in his/her work by the effective laws of the Russian Federation and bear responsibility as prescribed thereby.
- 3.1.2. A professional corporate director should comply with the Code of Corporate Conduct, the Company's charter and internal documents if they do not run contrary to the effective legislation of the Russian Federation.
- 3.1.3. A professional corporate director is recommended to be guided by the Code of Corporate Conduct recommended by FCSM of Russia in his/her work on the Companies' boards of directors.
- 3.1.4. If a professional corporate director learns about action or omission by members of the Company's board of directors, its sole executive body, members of the collective executive body or members of the audit commission (auditor) in violation of the effective legislation, the professional corporate director should take legal, reasonable and sufficient measures to prevent the consequences of such action or omission regardless of the position, social or property status of persons who so act or omit, and act toward restoring the legality.

- 3.1.5. A professional corporate director will not be liable for actions or omissions caused by the disclosure of distorted information by the Company, which he/she received in the order prescribed by law.
- 3.1.6. A professional corporate director will be liable before the professional community of corporate directors for compliance with this Declaration. If a professional corporate director breaches the Declaration principles or requirements, the disciplinary measures, as set in point 6.9. of this Declaration could be taken against him/her:
- 3.1.7. If a professional corporate director learns about violation of the Declaration principles and/or requirements by other members of the professional community of corporate directors, the professional corporate director should inform the Collegium of the professional community, in writing, about this violation.

3.2. Principle of Diligence

- 3.2.1. While officially documenting his/her consent to be nominated to the Company's Board of Directors, a professional corporate director should properly assess his/her capacity for the quality performance of duties related to his/her election to the board of directors. A professional corporate director should decline, in writing, nomination to the Company's board of directors if he/she is unable to perform the duties of a member of the Company's board of directors properly by force of different circumstances.
- 3.2.2. A professional corporate director should act to the best of his/her knowledge, take all and every necessary efforts and fully employ his/her professional knowledge, experience and skills in the interests of the Company and all its shareholders (participants).
- 3.2.3. A professional corporate director should spend as much time on his/her work in the board of directors as is required for the best performance of his/her duties.
- 3.2.4. A professional corporate director should proactively participate in all meetings of the board of directors, with the exception of cases where such attendance is not possible for objective reasons.
- 3.2.5. For the best possible performance of his/her responsibilities, a professional corporate director should continuously improve qualification, personal effectiveness and professional competence. A professional corporate director should have additional training, at least once a year, in aspects of knowledge and practice that are relevant for the work in the Companies' boards of directors, in the scope recommended by the professional community of corporate directors.

- 3.2.6. A professional corporate director is recommended to follow adopted by the Professional Community of Corporate Directors technologies (orders and procedures) of professional work on the Boards of Directors.
- 3.2.7. A professional corporate director should not make decisions on issues being outside his/her professional competence, unless considering opinion of relevant experts and specialists.

3.3. Principle of Making Informed Decisions

- 3.3.1. A professional corporate director should make decisions on the basis of reliable information – information received in the order prescribed by law.
- 3.3.2. A professional corporate director should make expedient and reasonable measures to obtain additional information necessary for making an informed decision, and in so doing he/she should act in compliance with the effective legislation, with due regard of the Code of Corporate Conduct and this Declaration.
- 3.3.3. While making decisions, a professional corporate director must take into account risks and possible short-term and long-term consequences of these decisions for all shareholders and stakeholders.
- 3.3.4. It is recommended that professional corporate directors make decisions on the most important issues in the Company's work with due regard of recommendations given by the relevant Board committees.

3. 4. Principle of Balance of Stakeholder Interests

- 3.4.1. A professional corporate director should make decisions and act in the interests of the Company and all its shareholders (participants) with due regard of the interests of all stakeholders.
- 3.4.2. A professional corporate director should inform the Company's Board of Directors in a timely way about a conflict of interests (personal interest which might occur in relation to the work performed thereby) and avoid working on, and making, a decision, which generates such a conflict. A professional director should take active part in conflict resolution process and apply all possible efforts so that a non-conflict decision be made.

3.5. Principle of Using Information

- 3.5.1. A professional corporate director should not disclose confidential information which is defined as such by the Company's internal documents until this is authorized by the Company's board of directors or required by law.

- 3.5.2. A professional corporate director should disclose only reliable information about the Company's operations — information which he/she has received personally, or information from the third parties, received in the order prescribed by law.
- 3.5.3. A professional corporate director should promote the disclosure of reliable information in the Company's interests.

CHAPTER 4

ETHICAL PRINCIPLES OF THE PROFESSIONAL COMMUNITY OF CORPORATE DIRECTORS

4.1. Principles of Personal Ethics of a Professional Corporate Director

4.1.1. For the best performance, a professional corporate director should follow the personal principles of ethics:

- Honesty
- Openness
- Scrupulousness
- Fair treatment
- Social responsibility (taking into account the social, environmental and other socially relevant implications of the Company's operations)
- Advancement (focus on self-development and improvement of professional qualification)

4.2. Principles of Collective Ethics of Members of the Professional Community of Corporate Directors

4.2.1. Principles of collective ethics of the professional community of corporate directors are:

- Equal cooperation of all members of the professional community of corporate directors which has different categories of corporate directors including executive, non-executive and persons who have the status "independent corporate director.B
- All members of the professional community of corporate directors, regardless of their status and category, are committed to the professional and ethical principles of the Declaration and compliance with its requirements.
- Respect, cooperation with, and mutual assistance to all members of the professional community of corporate directors, regardless of their status, category, social or property position.
- Protection of reputation of the professional community members.

- Avoiding non-constructive criticism towards other members of the Professional Community of Professional Corporate Directors and striving to solve arising controversies through compromise.

4.3. Principles of Business Ethics Toward the Company

4.3.1. For the best performance, a professional corporate director should follow the principles of business ethics toward the Company on whose board he/she sits. These principles are specified in the following requirements:

- Act in a loyal way toward the Company.
- Protect the interests of all shareholders of the Company.
- Take into account the interests of all stakeholders in the Company.
- Make sure that his/he work in the Company's Board of Directors brings results.
- Act in a constructive way toward resolution of the Company's corporate conflicts.
- Promote the Company's transparency level in compliance with the requirements stated in the effective legislation, recommendations of the Code of Corporate Conduct and the Declaration.
- Act on the Companies' Boards of Directors in the spirit of openness, constructive cooperation and mutual understanding.
- Equally cooperate with all members of the Company's Board of Directors, regardless of their social status, job position and other factors.
- Comply with the rules of corporate culture, working rules and procedures established by the Company's internal documents if they do not run contrary to the effective legislation.
- Take part in the alternative (out-of-court) forms of corporate conflict resolution with respect to the Company if these forms do not run contrary to the laws, if such a proposal is made to the professional corporate director.

4.4. The Status of an “Independent Corporate Director”

The same person may be executive or non-executive corporate director in different Companies, and the status of his/her “independence” may be determined in each case.

The status of an “independent corporate director” implies consistency with the requirements of effective legislation (Article 83 of the law *On Joint-Stock Companies*) and might be additionally defined with due regard of recommendations given in the Code of Corporate Conduct and the Company's internal documents.

At this stage of corporate governance in Russia the decisive role is played by professionalism of corporate directors who should, regardless of their category and “independence” status, take every effort to make sure that their position on the issues of the Company's operation is as objective as possible and is driven by the needs of its long-term development.

CHAPTER 5
QUALIFICATION REQUIREMENTS TO MEMBERS
OF THE PROFESSIONAL COMMUNITY OF CORPORATE DIRECTORS

To be put on the National Register of Professional Corporate Directors and maintain the status of a member of the Professional Community of Corporate Directors, a candidate should meet the qualification requirements established by the community.

5.1. Education Requirements

A candidate for the National Register of Professional Corporate Directors (“CandidateB) must have higher (University level) education.

The Candidate must present the originals of documents, or their copies certified by the notary, that confirm his/her respective education.

5.2. Skills Requirements

For the best performance, a professional corporate director should effectively have skills that are relevant for the work members of Boards of Directors:

- Skills of working in a collective governance body
- Analytical skills
- Strategic management skills
- Risk management skills
- Innovation management skills
- Leadership skills
- Skills of effective communication (pro-active listening, effective negotiations, conflict resolution, etc.)
- Personal effectiveness skills (planning, prioritizing, etc.)

The Candidate will assess on his/her own to what extent he/she has each of the above-mentioned skills in a personal fact sheet, which he/she will complete while filing the documents for signing up to the National Register of Professional Corporate Directors.

The Collegium of the professional community of corporate directors reserves the right to verify, by using legal means, the Candidate’s information about his/her professional skills and monitor the use of skills required for the effective performance on the boards of directors by members of the professional community of corporate directors.

5.3. Additional Personal Information

A professional corporate director should seek to present to the Board of the professional community of corporate directors additional personal information which might be requested by the Company's interested shareholders for taking a decisions on nominating the professional corporate director to the Board of Directors.

As part of other additional personal information, the Company shareholders (participants) may request documents to provide additional confirmation that the professional corporate director can in the best way perform on the Company's Board of Directors.

For example, they may request documents that confirm:

1. Professional reputation (evidence of business success).
2. Alternative legal sources of income.
3. Absence of travel restrictions (visa and/or other barriers).

CHAPTER 6

PROCEDURE OF THE NATIONAL REGISTER OF PROFESSIONAL CORPORATE DIRECTORS

- 6.1. The National Register of Professional Corporate Directors is kept by the Russian Institute of Directors (RID) – the working body of the National Council on Corporate Governance, a specialized non-profit organization for consolidation of the professional community of corporate directors and the expert/resource center for drafting, implementation and monitoring corporate governance standards in Russia.
- 6.2. The keeping of the National Register of Professional Corporate Directors is supervised by the Collegium of the Professional Community of Corporate Directors in conformity with the Declaration principles and requirements.
- 6.3. The National Register will be kept on the basis of the primary documents presented by the Candidates (request; fact sheet (Attachment 1 to the Declaration); documents to confirm the work record; documents to confirm education; documents to confirm membership in organizations' governance and oversight bodies) and internal documents (decisions; results of review of the Candidates' requests) issued by the Collegium of the Professional Community of Corporate Directors.
- 6.4. Inclusion in the National Register of Professional Corporate Directors through a review of the Candidate's request and prescribed documents is open not only for the candidates to the board of directors who have been nominated by a shareholder or a group of shareholders but also for any person who seeks election to the board(s) of directors.

- 6.5. The ground for including a Candidate in the National Register of Professional Corporate Directors will be a decision by the Collegium of the professional community of corporate directors, based on reviewing the Candidate's request and the prescribed list of documents. The Candidate's request should include a commitment to comply with the Declaration principles and requirements.
- 6.6. The procedure of reviewing the Candidates' requests and other documents is defined by the Collegium of the professional community of corporate directors in its working procedures. The procedure of reviewing the Candidates' requests should be based on the principles of a collective and comprehensive evaluation of the Candidate and/or documents presented thereby.
- 6.7. The Candidate will be included in the National Register within three working days after the Collegium takes a positive decision based on its review of the request.
- 6.8. Initiative withdrawal from the National Register of Corporate Directors is possible at any time based on personal request.
- 6.9. If a professional corporate director breaches the Declaration principles or requirements the following disciplinary measures could be taken against him/her:
- invitation to the Board meeting to clarify the circumstances;
 - warning by the Board;
 - deleting his/her name from the National Register of Professional Corporate Directors.
- 6.10. The ground for removing a professional corporate director from the National Register will be a decision of Collegium of the professional community of corporate directors, taken on the following grounds:
- 6.10.1. The court has ruled, in the order prescribed by law, that the professional corporate director is legally incapable or partially capable.
- 6.10.2. The professional corporate director has breached the principles and requirements stated in this Declaration, and this breach has incurred damage on the Company in which he/she is a member of the board of directors.
- 6.10.3. A court verdict stating that the professional corporate director is subject to an administrative penalty in the form of disqualification pursuant to the RF Code of Administrative Offense has become effective.
- 6.10.4. A court verdict which rules a professional corporate director guilty of intended penal acts treated as such by the laws of the Russian Federation has become effective.
- 6.11. The following information about a professional corporate director included in the National Register is public:
- Full name
 - Year of birth
 - Education
 - Employment in the governance and supervisory bodies of joint-stock companies, businesses and other organizations.

- 6.11. Public information will be periodically disclosed in the mass media and posted on the Internet.
- 6.12. The Register's non-public information about professional corporate directors will be provided by the Board at the official inquiries sent by the interested persons.
- 6.13. The National Register contains data on activities implemented by a member of Professional Community of Corporate Directors while serving on Boards of Directors.

CHAPTER 7
OVERSIGHT OF COMPLIANCE
WITH THE DECLARATION OF PRINCIPLES
OF THE PROFESSIONAL COMMUNITY OF CORPORATE DIRECTORS

- 7.1. Compliance with the Declaration principles and requirements by members of the professional community of corporate directors will be overseen by the Collegium – an executive body of the professional community of corporate directors, which will consist of this community members. The Collegium will be elected by the forum of the professional community of corporate directors*

* Before the first forum of the Professional Community of Corporate Directors – i.e. persons included in the National Register of Professional Corporate Directors – the Collegium will be formed by the Expert Council and Council of Members of the non-profit partnership “Russian Institute of Directors.B

- 7.2. The Collegium will act in compliance with the effective legislation, this Declaration and its Working Procedures.
- 7.3. The Collegium will have the following functions:
 - 7.3.1. Review the Candidates' requests and verify their documents for including them in the National Register of Professional Directors.
 - 7.3.2. Monitor changes and oversee validity of information about corporate directors included in the National Register, as the ground for the professional corporate director to retain the status in the National Register of Professional Corporate Directors.
 - 7.3.3. Monitor performance and oversee compliance with the Declaration requirements by the professional community members who have been elected and are acting as members of the Boards of Directors. The Collegium will exercise both proactive oversight (by sending inquiries in regards to professional corporate directors' performance, decisions, etc. to the

Companies' Boards of Directors) and response control (review incoming information, inquiries, requests, etc.). Based on the results of monitoring and oversight, the Collegium will take decisions about the consistency of a professional corporate director's performance with the Declaration principles and requirements, and will be authorized to take disciplinary measures against the professional corporate director in compliance with the Declaration.

- 7.3.4. Publicize information about the results of the monitored compliance with the Declaration principles and requirements by members of the professional community of corporate directors through the available mass media, Internet and in a report to a forum (Congress) of the Professional Community of Corporate Directors.
- 7.3.5. Provide non-public information from the National Register of Professional Corporate Directors at a request of interested parties in compliance with the Collegium working procedures.

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