

# IMPROVING BUSINESS ETHICS AND REDUCING RISK OF CORRUPTION

## Experience of Russian and Multinational Companies



**SIEMENS**

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# INTRODUCTION

This publication appears at a time of major change for Russian business, not least in how the country's government, companies and people confront the challenge of corruption.

Over the last year, Russia has taken some serious steps to counter corruption. President Medvedev continued to ratchet up the rhetoric that something will be done about it. A number of laws were passed, including legislation forcing senior civil servants to declare their earnings, and an antibribery law, which came as a direct consequence of Russia adhering to the OECD's Antibribery Convention. There are more accounts of successful prosecutions of wrong-doing

Joining the international institutions and integrating Russia into the global economy is not an exercise in window-dressing. This brings with it obligations and responsibilities, which will be translated into new rules and regulations, which at some point, sooner or later, will have to be implemented at company level.

At the same time, there is a growing disillusionment. President Medvedev's campaign did succeed in raising public expectations, but the general consensus is that corruption has got worse. True, Russia did reverse its downward spiral in Transparency International's Corruption Perception Index. It improved its position by 11, but it still is at 143rd out of 182 countries, squeezed uncomfortably between Azerbaijan and Togo.

For business in Russia, operating in such an environment poses many challenges. The biggest is how can companies operate according to the best international standards and create a corporate culture that is intolerant to corruption when theft, bribery and fraud are all around. Many would say it's pointless to try to be clean in a corrupt environment: just operate according to the local practice – it's the most efficient way to make money, and doing anything else would threaten a company's profitability and in some cases survival. Let's be open about it – that's precisely the approach of most Russian companies. And there are several examples of multinationals doing this as well, the only difference being that they will actually get caught and prosecuted, perhaps not by Russian law enforcers, but by prosecutors in their home countries, enforcing extra-territorial legislation such as the US's Foreign Corrupt Practices Act and the UK's Bribery Act.

The corporations featured in this publication are different. These are a few companies that have the leadership to look beyond the immediate operating environment. They have reached a strategic decision that as a matter of principle they will not participate in corruption. There may or may not be a set of ethical beliefs underpinning this, but underlying all of them is a business motive: these companies believe – or have calculated – that the cost of engaging in corrupt activities – in the form of bribes, future bribes (once you start you can't finish), shoddy quality and delivery, theft by employees and agencies, reputation loss, legal costs and settlements and personal liability in the event of getting caught – actually outweigh the cost of business lost because they have refused to pay up. They have also understood that a strong commitment to corporate governance and responsible business practices, not only helps them run their companies more efficiently, but makes them more attractive to lenders and investors. At a time when during this global financial crisis financiers are particularly cautious, a clear commitment to clean business makes companies more attractive. It can make a difference to the conditions of the loan or investment, and indeed to whether the deal takes place at all.



Brook Horowitz  
Director, Business Standards  
International Business Leaders Forum

There are, after all, plenty of investment opportunities in other high-growth markets which are more attractive in part because corruption is perceived to be less endemic in the economy and society.

There are many companies in Russia that are adhering to these ideas and are willing to try to break the stronghold of corruption. The ones in this book are just a few of these. Some, like Hilti, are Western multinational companies, with a long-standing commitment to clean business ingrained in the founding family's values has an impressive array of management tools and approaches to create a unified approach in whichever country they do business. Another multinational, Siemens, is an excellent example for Russian companies of how a company can turn its back on its corrupt past and implement a wholesale reform of its corporate culture in just a few short years. Others, like TNK-BP and Sakhalin Energy, are joint ventures, where the Western partners, have implemented their highly developed global compliance systems. And others, like OMK, are domestic Russian companies that are trying to set a new trend. We should be under no illusion – no one is saying that there is no corruption within these companies, but they are all committed to reducing the risk of corruption in their own operations and in their markets. There will no doubt be more setbacks, more scandals involving individual employees, but it's a process which they have embarked on, a process which requires trust, courage, determination and vision.

These case studies will hopefully show to the reader that the process has started in Russia amongst companies of various sizes, industries and ownership structures. At the same time, with the help of our partners at Baker & McKenzie and PwC, as well as the Federal Antimonopoly Service (FAS), we have included some guidelines about how international and Russian anticorruption legislation is likely to impact companies in the difficult years to come. Our hope is that this book will inspire and remind business leaders and executives who are running their companies here that "corruption" and "Russia" are not synonymous, that it may be more costly to maintain corrupt practices than to stop them, that there do exist in business leadership values and well-trying management tools and practices which can create a corporate culture which is intolerant to corruption. In short – in Russia, it is possible to do business in a different way.





# BAKER & MCKENZIE

## LATEST AMENDMENTS IN INTERNATIONAL ANTICORRUPTION LEGISLATION AND THEIR SIGNIFICANCE FOR RUSSIAN COMPANIES

The world around us is constantly changing and sometimes this happens faster than we expect. In a comparatively short period of time Russia has seen the adoption of a whole package of legislative acts aimed at bolstering prevention of corruption. It seems, however, that these measures have not been perceived by the business community as directly affecting their everyday activities. Meanwhile, the amendments introduced, in particular, in the Russian Federation Code of Administrative Offences (further – the CAO) demand careful reassessment of the risks that may be incurred by companies due to the actions of their employees and counteragents – distributors, subcontractors, consultants and other intermediaries.

What we mean is the introduction of liability of legal entities for corruption offences committed in their interests. It should be noted that the liability is incurred for corrupt practices occurring both in Russia and abroad. Thus, the notion of extraterritoriality – ordinarily viewed as a feature of foreign laws, the best known example of which being the US Foreign Corrupt Practices Act – has now become an integral element of Russian legislation. As a result, a legal entity can be held liable under Russian law for corruption offences committed in its interests outside the territory of the Russian Federation.

It is important to emphasize that the introduction of this approach is closely linked to the international obligations assumed by Russia upon joining the UN Convention against Corruption (UNCAC) of October 31, 2003, and the Criminal Law Convention on Corruption adopted by the Council of Europe on January 27, 1999, as well as the intention of Russia to join the OECD (Organization for Economic Cooperation and Development), which will require accession to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of November 21, 1997. On the one hand, this shows that

Russian legislation has become considerably closer to the generally recognized international standards in this area, and on the other hand this gives grounds to assume that Russian law enforcement practices must develop taking into account international experience.

### Legal Provision Establishing Liability

The liability incurred by a legal entity for corrupt practices committed in its interests is established by Article



Edward Bekeschenko  
Partner  
Baker & McKenzie – CIS, Limited

19.28 of the CAO. Taking into account the latest amendments, which came into force in May 2011, this article stipulates that a legal entity can be held administratively liable for:

illegal transfer, offer or promise on behalf of a legal entity of money, securities, other property, services of pecuniary value or property rights to a public official, officer of a commercial or other organization, a foreign public official or an official of a public international organization for the commission by the said public official, officer of a commercial or other organization, foreign public official or official of a public international organization of an act (omission) related to his position in the interests of the said legal entity.

As can be seen from this provision, the offence is not limited to the transfer of unlawful remuneration but also includes its offer or promise. This is an extremely important point, particularly in view of the fact that the range of persons whose actions can make the legal entity liable is not restricted to the employee of this entity or its representatives acting under a power of attorney. Other persons, who are not under direct control of the legal entity, for example, its commercial partners, can also act in its interests. Therefore, the intermediaries must be chosen with the utmost care.

It is also worth noting that not only money is considered to be unlawful remuneration but also other assets, property rights and services of pecuniary value. Thus, for example, free tickets to entertainment events or free accommodation in a hotel can also be deemed a remuneration.

#### **Penalties for Violation**

Commission of offences stipulated by Article 19.28 of the CAO will result in a substantial administrative fine

and confiscation of the unlawful remuneration and, in cases when confiscation is impossible, for instance, if the unlawful remuneration was in the form of services, confiscated should be their monetary equivalent.

The amount of the administrative fine depends on the gravity of the offence. The minimum fine is imposed if the amount of the unlawful remuneration does not exceed RUB 1 million. In this case, the fine can reach three times the unlawful remuneration, though not less than RUB 1 million. If the amount of the unlawful remuneration exceeds RUB 1 million, the fine can be 30 times this amount, but not less than RUB 20 million. The highest fine is imposed for the unlawful remuneration exceeding RUB 20 million. In this case, the fine can be 100 times the amount, but not less than RUB 100 million. Thus, the fines imposed for such offences are comparable with the highest administrative penalties applied to legal entities.

#### **Some Enforcement Challenges**

Presently, it is difficult to predict precisely how Article 19.29 of the CAO will be enforced. One of the main questions that will need to be resolved is whether the legal entity can be held liable without the criminal prosecution of the individual who has actually transferred, offered or promised the unlawful remuneration.

We think such a possibility exists and, moreover, this is the trend in international anticorruption efforts. Thus, for instance, according to the OECD recommendations for implementation of the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of November 21, 1997, the participating countries should not limit the liability of legal entities to cases when individuals committing the respective offences are criminally prosecuted. The enforcement of Article 19.28 of the CAO may well follow this trend.



However, there are other, more conservative, views. Thus, for example, as follows from the Commentary on the Draft Federal Law On Amendments to Certain Legislative Acts of the Russian Federation to be Enacted due to Introduction of the Concept of Criminal Legal Pressure on Legal Entities posted on the website of the RF Investigation Committee, the Investigation Committee takes the view that Article 19.28 of the CAO provides for liability of legal entities for involvement in the offences stipulated by Articles 291 and 201 of the RF Criminal Code, i.e. for involvement in bribery and/or abuse of authority (in a commercial or other organization) committed by an individual.

Indeed, corruption in the interests of a legal entity is ultimately committed by an individual. However, if enforcement of Article 19.28 of the CAO depends on criminal prosecution of individuals, many problems will arise. For example, the actions of an individual can only be defined as bribery in case of transfer (or partial transfer) of unlawful remuneration. Offers or promises to give a bribe are not a criminal offence under the RF legislation. Therefore, this approach with respect to offers and promises of unlawful remuneration will deprive Article 19.28 of the CAO of its legal force, and this is clearly at variance with both the purpose of this article and Russia's international commitments.

#### **Measures to Prevent Offences**

The enforcement practices under Article 19.28 of the CAO may indeed evolve in different directions, but this is rather a question of the mechanics of imposing liability on legal entities. At the same time, Article 19.28 of the CAO leaves no doubt that if liability is imposed, the legal entity can be subject to severe sanctions. Therefore, the question for the legal entity should not be how to evade liability but, instead, what specific measures are to be taken by the legal entity in order to prevent actions that can result in such liability.

In our opinion, the answer to this question lies on the surface and is in line with the existing and successful international practice, except perhaps for some minor details.

According to the Code of Administrative Offences, administrative liability is fault-based. A legal entity is deemed to be at fault if it had an opportunity to comply with rules whose violation entails administrative liability



**Anton Subbot**  
Associate  
Baker & McKenzie – CIS, Limited

but did not take all the measures within its powers to comply with these rules. In other words, the legal entity's liability is not "automatic"; it is imposed for omission – failure to take effective measures to prevent the offences stipulated by Article 19.28 of the CAO.

In practice, these measures imply development and implementation of the following: standards of proper behavior (duly communicated to the employees at all levels); an effective system of internal controls to monitor compliance with those standards; an effective financial and accounting system; a reporting mechanism enabling employees to report suspected offences; adequate procedures for disciplinary measures, etc. Apart from that, it is necessary to develop and implement proper

criteria and procedures for selection of commercial partners and monitoring existing partners, with the possibility of taking relevant measures in case of discovering any evidence of corruption in their activities.

All measures intended to prevent offences under Article 19.28 of the CAO need to be developed taking into account the specific conditions in which the organization operates and the specific risks it faces. Adoption of such measures will help the organization ensure compliance with the anticorruption legislation. If, however, in spite of all the above-mentioned measures certain employees or commercial partners commit offences, the organization can point to the absence of the fault required to hold it administratively liable.

# FAS

## CARTELS. PRACTICES OF FEDERAL ANTIMONOPOLY SERVICE OF RUSSIA

A major constraint of market competition is represented by “anticompetition agreements” or “collusions”, entered into in writing or verbally by business entities themselves, or between business entities and government authorities.

The Russian legislator prohibits and recognizes as cartels the agreements which result or may result in:

- establishment or maintenance of prices (tariffs), discounts, margins (surcharges), markups;
- price increase, decrease or maintenance at tenders;
- division of a commodity market by territory, sales or purchase amount, goods assortment or combination of sellers or customers;
- output reduction or stoppage;
- refusal from entering into contracts with certain sellers or buyers (customers).

**By entering into such agreements, independent companies act as monopolies: rather than engage in natural competition, competitors engage in mutually beneficial co-operation, detrimental to consumers and bringing excessive profits to the participants.**

The Federal Antimonopoly Service of Russia (FAS) lists the following consequences of collusions:

- artificial price rises;
- assortment shrinking – fewer novel commodities,

including high quality ones, are marketed;

- drastic demotivation of companies to develop, introduce or design innovative technologies, to improve their performance;
- entry bottlenecks for new market players;
- market stagnation.

Federal Law of July 26, 2006 No. 135-FZ On Protection of Competition prohibits the following types of collusion:

- horizontal collusion, including collusions at tenders (auctions) (Part 1 Article 11);
- vertical collusion<sup>1</sup> where one of the participants has a market share in excess of 20%, or if such agreement leads to setting the price of resale, or if by such agreement the seller causes the buyer to stop the competitor’s goods from being marketed (Parts 1<sup>1</sup>, 1<sup>2</sup> Article 11, Article 12);
- other anticompetition agreements entered into by business entities (Part 2 Article 11);
- collusion between business entities and government authorities (Article 16). The aim of such agreements can be provision of preferences to friendly companies; alteration of equal terms of competition and/or removal of “unsuitable” entities from the market.

It should be noted that Articles 11 and 16 also stipulate prohibition of concerted actions<sup>2</sup>, which lead or can lead to consequences restricting competition.

Horizontal anticompetition agreements are of many types and very common. Let us consider several situations illustrating this point:

<sup>1</sup> Agreement between business entities which are not in direct competition, where one party buys or can buy the goods and the other party supplies or sells the goods (Point 19 Article 4, Law On Protection of Competition).

<sup>2</sup> The notion of concerted actions of business entities is defined in Article 8, Law On Protection of Competition.

**Example 1.**

The general meeting of the non-profit organization (NPO) attended by its 28 members (alcohol retailers in the Kemerovo Region) adopted an agreement on “systematization of wholesale activities of the organization members”. They agreed:

- to set the minimum price of the vodka produced in other constituents of the Russian Federation and sold in the regional retail outlets at RUB 75 per 0.5 l bottle;
- to maintain the pricing model established for the vodka produced in the Kemerovo Region according to the distributorship agreements with suppliers;
- to refrain from buying vodka and liqueurs and spirits produced in the North Caucasus republics.

The agreement stipulated that non-compliance with its terms and conditions by the NPO members shall be penalized, with triple violation resulting in expulsion of the member from the organization.

The territorial directorate of the FAS of Russia audited the activities of the organization and ruled its judgment on the case by establishing the fact of violation of Part 1 Article 11 of the Federal Law On Protection of Competition, namely, the competition restricting collusion entered into by the members of the non-profit organization.

Horizontal collusions also include collusions at public tenders, i.e. agreements between competitors on the terms and conditions of winning a contract prior to the auction. For example, the competitors agree to submit their bids at prices containing sure to lose prices or unacceptable conditions in order that a certain bidder’s proposal could win. In other cases, one or more competitors agree to refrain from bidding or recall their offer in order that a certain participant wins. The aim of such agreements can be the opportunity to win contracts in turns (bid rotation), or cash payment or subcontracting. The possibility of collusion is evidenced by the following facts:

- the majority of tenders are won by the same company;
- a number of companies win tenders in turns;
- minimum number of bidders;
- the bidders are well-informed of their competitors and their bids;
- minimum reduction of the reserved price;
- failure of some bidders to attend the auction;
- the auction is attended by bidders who have not submitted their proposals;
- access to information on the coming auction is limited;
- auction prices differ from the market price.

The judicial practice confirms the position of the FAS of Russia. It states that it is possible to establish awareness of each entity and their respective concerted actions both on evidence proving that they did obtain specific information, and on the basis of analyzing the general situation in the commodity market (which predicts such behavior as a group model allowing to gain certain non-competitive advantages).

Compulsion can be ascertained if the result of concerted actions in the specific market conditions

"...People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Adam Smith

rules out the possibility of negotiating other terms of demand or supply with the market players. It is to be noted that the actions are considered to be concerted irrespective of whether they have been simultaneous or not – it is sufficient to establish their existence as of the time when they are revealed by the antimonopoly authority.

Concerted actions of entities in the market can also be established in the absence of documentary evidence of the agreement to commit such actions. The arguments concerning collusion can be proved on the basis of the actual circumstances of committing concerted actions by the market players. Thus, the peculiarity of the case described below is that the main proof of the concerted actions<sup>3</sup> committed by the entities was derived by the directorate of the FAS of Russia from the findings of the detailed economic analysis of the activities of the market players and comparative analysis of how much

the behavior of each of them corresponded to their economic opportunities.

The abovementioned example also refers to the most common type of anticompetition agreements, the so-called price collusions, i.e. agreements between competitors on uniform price manipulation (maintenance of a certain price level, establishment of the minimum price, availability and range of discounts, typical pricing formula, notification of the forthcoming price changes, charges for delivery, installation, servicing, etc)

The common forms of collusion include agreements on how their participants distribute among themselves:

- customers;
- territories;
- sales or purchase amount;
- assortment of the goods sold.

### Example 2.

To carry out the research, the antimonopoly authority invited experts from the Department of Mathematics and Physics and the Mathematics Faculty of the Penza State Pedagogical University. The experts calculated the probability of random coincidence of prices charged by different business entities, which appeared to be 1 to 3,300,000,000.

Based on these findings, the Antimonopoly Directorate Commission established that several business entities (companies and sole proprietors) violated the provisions of Point 1 Part 1 Article 11 of the Law On Protection of Competition. The violation referred to the concerted actions resulting in simultaneous

setting and maintaining identical prices of liquefied petroleum gas in the region.

The Commission of the Federal Antimonopoly Service Directorate stated that all participants to the collusion:

- had changed the retail price of liquefied petroleum gas nearly simultaneously (within one or two days);
- had raised the retail price by the same amount, setting it on the same level, i.e, the actions of all the market players had been unidirectional.

Thus, it was established that the actions of the perpetrators with respect to their pricing policy in a certain period of time had been completely identical.

<sup>3</sup> In this case, in contrast to anticompetition agreements, no prior agreements between the participants are assumed. The Supreme Arbitration Court of the Russian Federation stipulated: "Concerted actions can, among other things, be evidenced by the fact that they are committed by different market players in a rather uniform and synchronous way without any objective reasons of such behavior." (See: Ruling of the Plenary Meeting of the RF Supreme Arbitration Court of June 30, 2008 No 30 On Some Issues Related to Application of Antimonopoly Legislation by Arbitration Courts, Point 2).

In the absence of competitive struggle for customers, the entities can divide them according to the principle of “ins and outs”. The same is true about markets: business entities “operate” each in its “own” geographical area. The evidence of such collusions can be provided by the fact that the competing entities are not interested in certain

types of customers, territories, contracts and the companies’ supply is stable even when the demand exists.

Coordination of economic activities<sup>4</sup> can sometimes be regarded as violation of the antimonopoly legislation too (Part 3 Article 11 of the Law On Protection of Competition). Illegal coordination accompanies anticompetition agreement (concerted actions). Actions of individuals, profit or non-profit organizations are determined as illegal coordination of economic activities in the cases when those individuals or organizations, though being facilitators of anticompetition agreements (concerted actions), do not actually operate in the market where this agreement is realized.

Thus, not long ago the FAS revealed the classical cartel formed for the purpose of price fixing and output limitation (**see example 4**).

In detecting anticompetition agreements or collusions, the antimonopoly authorities rely on various sources of information. The information can be obtained from the cartel members themselves (“acknowledgement of guilt”), or from third persons (law enforcement and other government authorities, claims, complaints, other official applications addressed to the FAS), or from informers (“insiders”). Besides, information evidencing cartel collusions can be obtained by the antimonopoly authorities in the course of monitoring oligopoly markets, biggest companies and business associations or from the media.

The information received is examined and processed. On the basis of the findings a decision can be made to carry out investigation and an antimonopoly investigation group is formed. The investigation involves gathering evidence of violations of the antimonopoly

### Example 3.

In late 2010, the FAS acknowledged the violation of the provisions of Points 1, 3 Part 1 Art. 11 of the Law On Protection of Competition by a number of coal mining companies. The violation referred to the fact that these companies had entered into agreements restricting competition in the coal market and aimed at fixing the coal price and dividing the market of the power generating coal among the sellers.

The investigation was carried out in cooperation with the Ministry of Internal Affairs (MIA). The antimonopoly authorities used the materials obtained within the framework of the operative-search activities. The documents and information presented by the MIA to the FAS contained, for example, the verbatim record of the telephone talks conducted by the executive officers of the companies participating in the collusion and the government authority concerning coordination of the terms and conditions of delivering the power generating coal to the end users, including payment terms, prices, amounts of deliveries.

The findings of the FAS referring to the case were submitted to the MIA. Finally, the activities of the major coal market players were determined as falling under Art. 178 of the Criminal Code (Non-Competition, Restriction of Competition or Elimination of Competition).

<sup>4</sup> Coordination of economic activities refers to the alignment of actions of business entities by a third person which is not involved in any of the groups uniting those business entities. Activities of a self-regulating organization aimed at establishing the terms of access to, or exit from, the market of its members in accordance with the federal laws shall not be determined as coordination of economic activities.

**Example 4.**

The international cartel involving companies belonging to the match industry<sup>5</sup> has been operating over a number of years. Its coordinator and facilitator was the business entity – they were not a competitor of the cartel members because they did not operate in this market.

The cartel member entities engaged in production and sale of matches have been holding quarterly meetings over a long period of time<sup>6</sup>, which resulted in the commitment of each participant to set a uniform price of the matches and maintain the output at a certain level during a stated period. The facilitator of such meetings was a person acting under a contract of service entered into by all the participants of the collusion. The facilitator developed the programs (plans) of the meetings, gathered and summarized information concerning matches output and sales, prices of matches and raw materials. The same coordinator sent invitations to the member entities to attend those meetings, including the stipulation of money transfers to his current account.

The cartel was exposed because the FAS received information on a new meeting of the “managers of match manufacturers”. The documentary evidence was obtained in the course of eight simultaneous sudden audits carried out by the antimonopoly and law enforcement bodies. The antimonopoly directorate recognized that the members of the cartel violated Points 1, 3 and 7 Article 11 of the Law On Protection of Competition. All the participating organizations confessed that they had violated the antimonopoly legislation and volunteered to resign from the collusion, taking advantage of the provision valid for that time stipulating their right to be exempt from liability according to the appendix to Article 14.32 of the Russian Federation Code of Administrative Offences.

The actions of the cartel facilitator who coordinated the members’ economic activities leading to the establishment of the output limits and prices were determined as violation of Part 3 Article 11 of the Law On Protection of Competition. The facilitator was ordered to cease violation of the antimonopoly legislation.

legislation, identifying the persons (legal entities and individuals, such as sole proprietors or executive officers) which are reached with written requests and checked.

To conclude, it should be emphasized that despite various complexities of determining and proving an offence, we can see that there is a law enforcement practice in the making aimed at criminal prosecution for those violating the rules of fair competition.

<sup>5</sup> The collusion involved Russian, Belarusian and Ukrainian entities.

<sup>6</sup> At least eight years.





# PwC

## CORRUPTION IN RUSSIA: TYPICAL WARNING SIGNS AND DETECTION

### Introduction

Almost every company, regardless of its size, industry and location, is exposed to the risk of corruption. This is true across the globe and is not simply a developing markets phenomenon.

Corruption risk may arise in all types of commercial relationships, those between state and private organizations, state-to-state, private-to-private as well as between private individuals. That said, some types of commercial activities are empirically more exposed to those corruption risks:

- selling goods or services to institutions entirely or partly owned by the state;
- using intermediaries (for example, agents used to sell or transport goods across borders, or consultants to deal with the state on the company's behalf);
- getting visas, work permits and/or licenses;
- solving tax issues;
- charity and sponsorship;
- lobbying;
- reimbursing travel expenses, offering gifts, and rendering services or other privileges "free-of-charge" to government officials.

Similarly, certain industries have shown themselves to have a heightened exposure:

- pharmaceuticals and medical equipment;
- construction of roads, real estate and infrastructure;
- oil, gas and mining;
- energy;
- IT;
- aerospace and defense.

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John Wilkinson  
Partner, CEE Forensic Services Leader  
PwC

Whilst the risk is inevitable in any business, companies can reduce this risk by analyzing both themselves and the experience of other companies and taking preventive measures. All too frequently however, one of two viewpoints applies in Russian organizations – that corruption is endemic and cannot be controlled (the “it’s a fact of life” approach) or that corruption doesn’t happen within their own organization, despite the absence of specific efforts to control the risk and the clear indications that there is a heightened market risk (the “not in my backyard” mentality).

The purpose of this article is to look at the main corruption risk factors, typical warning signs, and some practical methods to approach detection and prevention of corruption within organizations.

According to Federal Law No. 273-FZ of December 25, 2008 On Counteracting Corruption, corruption is:

abuse of rank, bribery, abuse of power, commercial bribery or any other illegal use by individuals of their official position contrary to the legitimate interests of society and the state for the purpose of profiting in the form of money, valuables, other property or services of a material nature, property rights for oneself or for third parties or illegally providing such benefits to an individual.

It is noteworthy that the Federal Law as it defines corruption is quite different in its scope, and indeed it’s potential for interpretation, than anticorruption laws in other territories, many of which have also been substantially overhauled and updated in recent years. This can lead to uncertainties within organizations as to what specifically they are trying to control.

The authors have long advocated that organizations address not only bribery of public officials but adopt a much wider view of bribery and corruption covering any incite-

ment (delivered or not) to another party to misuse their position, in order to obtain an unfair business advantage. This is the definition we apply when contemplating corruption risk in subsequent sections.

#### **Risk Factors and Typical Signs of Corruption**

The magnitude and types of corruption varies. Based on our experience working within Russia with both Russian and foreign companies, we have identified the following areas in which the risk of corruption is particularly prevalent:

- work thorough agents and intermediaries;
- gifts and hospitality;
- charity.

#### **Agents and intermediaries**

One of the most widespread types of corruption in our experience relates to payments executed through agents and intermediaries. Article 290 of the Russian Criminal Code No. 63-FZ of June 13, 1996 establishes that officials are responsible for bribery that they receive or give both personally and through an intermediary.

Foreign companies, attracted by the young and promising Russian market, and often driven by the linguistic and cultural particularities of the country, hire agents, consultants and intermediaries to assist them undertaking business and to help them enter the market. The increased risk factor is clear, when a company engages an intermediary to receive permits that are required to conduct their business that interaction (with the officials issuing the permits) is outside the control of the company. Other examples could be a company paying lobbyists to organize a meeting with a political representative in order to ensure adoption of a law or regulation that will benefit them; or paying an agent to remove delays in local authorities approving a construction project. In

almost all instances the use of agents or intermediaries significantly increases corruption risk, and need proper supervision from senior management within the organization. All too often however the proactive management of the middleman's activities is ignored – a sort of don't look, don't tell approach – until one day the organization wakes up to a corruption issue that would have been controllable had the appropriate thought, time and effort been applied.

In reality, there are so many different types of payments and business agreements that it would be difficult to categorize them definitively as “likely to give rise to corruption risk” and “unlikely to give rise to corruption risk”. It is more precise to say that corruption risk can arise in any business operation. That said, the following is a list of common situations that often give rise to corruption risk. All examples in this section are taken from our own experience in the Russian market.

- Engaging a sales agent or intermediary in a tender to supply goods, perform work or render services for public purposes.  
Due to the logistical challenges of doing business in a country the size of the Russian Federation, sales agents and the use of distributors is a common business practice, even in those business sectors that do not traditionally use such a model in their “home” territories. One example is the supply of medical products. Pharmaceutical companies often have to work through chains of distributors with each link in the chain getting further and further away from the sphere of control, reducing transparency. For example, a foreign medical equipment manufacturer sold an offshore based sales agent medical equipment at a considerable discount. The sales agent then sold the equipment to a Russian company at a much higher price (not taking into account the discount).

That Russian company sold the goods to a third party (also Russian), which in turn sold them to another Russian company. The last Russian company then won a government tender to sell the equipment to a state organization.

While investigating the companies involved in this sales chain, it was discovered that the intermediary Russian companies (as well as the offshore company) were actually front companies. They were registered under fake names by the fourth company in order to funnel money to those officials responsible for the tender. The last Russian company used funds from the accounts of these front companies to pay off government officials, who, in return, awarded the last company the lucrative tender.

- Engaging an agent (individual or legal entity) to aid in customs clearance for imported and exported goods.  
Many organizations, Russian and non-Russian, face challenges getting imports into the Russian Federation. The import procedures are complex and difficult to understand. There are therefore numerous customs broker services that work to ease this process. The risks are clear, for a certain “facilitation fee” the process can be expedited.  
In a recent example, in addition to an official customs broker responsible for ensuring completeness of documentation, a company separately contracted and paid an individual in cash to speed up the customs clearance for their goods. There was no documentation of the rendered services, but it was later discovered that the agent used to work in customs and had (surprise, surprise) maintained friendships with old colleagues who rendered additional services for payment.
- Engaging a consultant to aid in interacting with the state to obtain licenses and permits.

There can be an overwhelming amount of bureaucracy to overcome in Russia. The number of specialists required to navigate these reams of permits, licenses and regulations again increases exposure as the more “consultants” there are the harder it is to oversee their activities. In a recent example, a company paid a “consultant” considerable sums on a monthly basis to help them receive health clearance and compliance certificates for imported products. While investigating the trustworthiness of the consultant, it turned out that the consultant was registered at a mass registration address and the name of the registered general director of the company corresponded with the name of an individual, who has lost his passport in the past.

- Engaging a lobbyist or consultant on developing laws, facilitating business or providing the company other privileges. The services of these types of consultants are often rendered under a contract for providing market research or other consulting. As a rule, the consultant is either registered offshore or at a Russian mass registration address. These companies typically exist for short periods (six months to two years), and then, after they have rendered the services, they are dissolved. Documentation of the rendered services either does not exist or does not correspond to the payment. For example, in one situation, a company submitted a 10-page report as a market research deliverable in exchange for USD 200,000.

These are just a few examples to highlight the risk of corruption in using agents and intermediaries.

Adequate due diligence can protect the organization from inappropriate acts of intermediaries and agents.

In business as in life, the simplest things are often the best. It may sound obvious but in all the above examples, adequate due diligence engaged by, and reported back to, senior management, before engaging the agent or intermediary would have helped prevent each of the corruption issues.

Before signing contracts with agents and intermediaries, PwC’s Corporate Intelligence team recommends organizations to:

- analyze the potential partners’ trustworthiness;
- assess their qualifications and reputation in the market;
- examine their registration documents, including the registration date and address;
- gather and verify data on the managers and shareholders.

It is also best practice to include an anticorruption clause in contracts with the potential partners to establish standards of behavior expected of the business partners and to ensure that the company has the right to examine the partner’s activities.

After the services have been rendered, companies should make sure they have documentary proof of the services received. This documentation should prove that the remuneration was appropriate for the quality/quantity of services rendered. Companies should also develop procedures for reacting to and dealing with potential violations of the anticorruption policy. This will help company employees act in accordance with company policy and will help the company prevent violations.

#### **Gifts and Hospitality**

In Russia, and especially in Russian business culture, gifts and hospitality are controversial topics. We

often hear people ask: “Are we allowed to give gifts to public officials? What about the employees of partner companies (clients, subcontractors, suppliers, etc) How much can we spend on these gifts? Can we give tax or customs officials a bottle of wine for the New Year or their birthday? Is it ok to give the chief doctor of a state hospital a book about antiques or invite him to an international conference (paying for the trip and bearing all related expenses)?” These are just a few of the controversial questions we’ve run into.

Gifts and hospitality are considered basic signs of politeness and companies often offer them as a matter of course. But anticorruption laws in many countries, including Russia, prohibit offering or providing money, valuables, other goods or services of a material nature, or property rights to a third party in order to receive an illegal privilege or influence the behavior of official persons (for example in order to help win a government contract).

Hospitality expenses (paying for someone’s meals in a restaurant) can also give rise to a certain risk. On the one hand, it is a common sign of goodwill all over the world. On the other hand, in an excessive form, or disproportionate to the position of the invitees, it can be considered a latent form of corruption. One example of this is organizing business breakfasts, lunches and dinners in expensive restaurants and entertainment complexes with representatives of state and municipal bodies in order to gain an unfair advantage.

To reduce corruption risk, many companies establish caps for hospitality expenses and limit their frequency, develop a limited list of possible gifts (including inexpensive souvenir products with the company’s logotype), require preliminary approval of hospitality expenses by the head of the company. Certain companies simply do not pay for entertaining, as it is not directly related

to business. Companies can also consider requiring employees to draw up reports on the number of the guests, the event topic and schedule in order to prove the relevance of the event to the business.

Hospitality issues also include questions related to invitation of the company’s business partners to conferences or presentations. If a company does not have clear procedures determining who should be invited, what expenses shall be covered by the company, by whom such expenses shall be approved, etc, the risk of corruption increases.

The questions can fall in grey areas – what is commensurate with the position of the individual or the service delivered. It is unlikely however that anyone would question the ...of a recent case we investigated, where a pharmaceutical company sponsored an all-expense paid trip for a doctor and his entire family to travel to a major medical conference in the US. The company paid for his accommodation in a five-star hotel, business class flights, sightseeing and other entertainment. The conference drew a huge crowd, and the doctor spoke and promoted the company’s products for five days “for free”. The organization was subjected to a serious corruption investigation, launched by the Regulator. At the conclusion of the investigation, a number of executive officers of the company were dismissed, and the company was required to adopt and actively implement anticorruption controls.

#### **Charity**

Many consider charitable activities part of corporate responsibility that can help attract attention to different social problems.

Unfortunately, dishonest companies can use charitable activities to cover up corruption, including financing charity organizations which exist only on paper. Even

when donations are made for legitimate causes, there is a risk of corruption. A common example of this is when charities provide benefits to third parties in exchange for donations. For example, once we discovered that a donation to an unknown charity organization was subsequently paid by the charity to a construction company that was involved in modernizing the country house of a state official's relative, who sat on the charity's board.

In order to reduce the risk of corruption, we recommend that companies develop a transparent mechanism for carrying out charitable activities, including:

- determining the sphere of charity (for example, medical institutions or orphan organizations) and the form of giving to be applied. Very often companies prohibit payments to personal bank accounts or cash. Some organizations actually prohibit all funds transfers and instead focus on providing goods and services which can be just as valuable and far less risky;
- assessing the trustworthiness and reputation of the charity organizations and their possible affiliation with interested persons; and
- implementing a reporting system including documents confirming the proper use of donations.

**Preventing Corruption**

Developing efficient anticorruption strategies and programs is one of the most important things companies can do to minimize risk. Of course, such programs cannot completely eliminate corruption, but they can help identify and react to potential issues early and thereby minimize risk. Adopting an anticorruption program is a complex process. Simply declaring “we do not accept, and do not offer, bribes” will not suffice.

Please, see below the circular chart illustrating the key elements of an antibribery compliance framework:



We recommend companies to analyze their business both inside and outside the country, assess the specifics of their markets and the idiosyncrasies of doing business in each country. These specifics are important because they can help identify the most pertinent risks. Risks can be related to specific types of transactions or to doing business in a specific country where corruption is more prevalent. After assessing the risks, we recommend developing an anticorruption strategy and program that covers those problem areas identified in the analysis.

The anticorruption program should be written in the native language of the company's employees and, for multinationals, it should be translated into other languages.

The anticorruption program is just the first step. Once the program is developed it will not simply work on its own.

The program success will depend greatly on the company's executives and how effectively they are able to promote the program throughout the company. Meanwhile, the weaker the relations between the head office and regional branches, the higher the probability that the anticorruption measures will fall short at the regional level. Employees must be familiar with the program and the consequences for violating it. In fact, even the strictest orders will be violated if employees see that there are no consequences.

Other useful measures include: organizing trainings, seminars and round tables, and setting up a center to help employees make the right decisions in tricky situations. We also typically recommend additional training for employees involved in sales and procurement. In our experience, these departments are the most vulnerable to corruption.

In the long term, companies should also have a system for regularly monitoring and reevaluating the risks of corruption. This will ensure the company is fluid in adapting its anticorruption program to any new conditions.

### Conclusion

When managers or owners of companies see other companies being accused of corruption, paying huge fines and dismissing managing directors, they often ask themselves: "Could it happen to me?"

In addition to the obvious external repercussions of corruption, such as damaging the company image and reputation, losing clients and partners, paying hefty fines and sometimes losing profit, corruption can have significant consequences within a company as well.

When corruption is discovered in a company and especially while it is being investigated, company employees often feel stressed and de-motivated. In our experience,

companies with weak control and where facilitation payments are common practice, property theft and manipulation of financial reporting are also more likely to occur. This is not a coincidence: companies that behave dishonestly externally create an internal atmosphere where dishonesty is seen as acceptable.

Developing an efficient anticorruption strategy and program that is focused on the key risk factors and that reaches all levels of the organization is the most effective way to counteract corruption.

To be efficient, the anticorruption program should:

- be consistent and coherent for use at all levels of the company;
- correspond to the corporate culture and the company's values;
- not forget remote or foreign parts of the organization, offices, branches or subsidiaries;
- take advantage of the existing methods for fighting corruption;
- correspond to the company's operational specifics and size;
- rank and classify the main risks;
- contain specific practical instructions, including how to document;
- be accessible and transparent (including for the company's business partners) to help the company adhere to corporate principles both internally and externally;
- provide for regular assessment of its effect so that it can be adapted to new conditions if/when necessary.

There will never be one perfect anticorruption program. However, companies that maintain a healthy balance between identifying and preventing corruption, and that can adapt their anticorruption strategy to a constantly changing business environment will be better able to mitigate the risk of corruption.

## I. YUZHANOV

### THE MAIN THING IS THE HUMAN FACTOR

Is the issue of ethical standards relevant today? Our cynical society is so steeped in corruption that few people are seriously thinking of ethical standards in business. My personal view is that the situation is getting from bad to worse. It is difficult to say who sets the tone – business or government – as both are involved. More recently, the government has been actively penetrating the business sector, and doing that rather unethically.

We are all aware of bribery, kickbacks, and public procurement procedures. But fighting all these issues just does not seem to pay. The scope of corruption is already comparable to the GDP. These are obviously shareholders' losses. A company has yielded up its money to somebody else, hence, ultimately the price of its products tends to grow.

If we want business to work efficiently in this country, we need internal control and a different level of compliance – the public one – the one being called Public Prosecution. But the latter itself appears to be corrupted to the highest degree. Corruption in this country is unbounded and pervades all spheres of life. From birth to death – you merely can't do without bribery.

Nobody speaks about corruption in companies, it just takes place. Certain pseudo-ethical standards have become popular. For example, I opposed the code of ethics developed by a certain company who prescribed all but the skirt length for women. This isn't ethics, this is nonsense. The same can be said about gifts. It is true that I, being a member of the board of directors, have signed a contract which states that I cannot accept gifts from the persons interested in decisions I could make whilst performing my duties. Neither direct nor indirect benefits are acceptable, excluding symbolic tokens of high regard pursuant to the common rules of courtesy. The member of the board of directors won't be approached with such "offers". These issues are settled on the level of executive bodies or lower.

I don't think gift regulations are of great importance. Let's say a certain head of department in a state-owned company is presented with a Swiss watch. But in the majority of cases, ironically the item would not be as expensive as the one he could purchase himself using the "facilitation" money he has received in closing the deal with a certain insurance company or buying material from a certain partner.

I can't think of any case in the companies where I serve on the board, where directors have considered ethical issues. As for the risks posed by illicit activities, they are indeed considered. The boards must and do make appropriate decisions to do with risk protection. But their reasoning is as follows: if you take risks in an out-



Ilya Yuzhanov  
Member of the Boards of Directors of Polymetal,  
NOMOS-Bank, ALROSA



## I. Yuzhanov

### The Main Thing is the Human Factor

of-limits situation it's one thing, but when such behavior becomes the norm, the level of risk to be considered is reduced. It is just like traffic regulations – if the driver knows that upon breaking the rules he can pay a bribe and retain his driving license, he is sure to drive on the wrong side of the road whenever he wants.

As a rule, sooner or later, a company develops an internal control system which is formally compliant with the standards. But how efficient is it? The internal control is aimed at 'maintaining corporate discipline' (both operational and financial), which to put it bluntly, is really about preventing theft. However, as soon as the business is exposed to the external environment, it finds it impossible to observe ethical standards in the framework of the totally unethical business practices in the Russian Federation. The problem of needing to pay bribes to public officials immediately arises. In this situation, neither the board of directors nor stockholders would approach managers to warn that they are not satisfied with the methods used to achieve the goals. Whatever the methods, the outcome is considered of utmost importance.

No doubt, everybody solves ethical problems in their own way, but quite often they merely reach a stalemate. Let's take young lawyers working for a company. They are involved in a simple case to be examined by court. Their senior colleagues prompt: "No way! You have to pay 'facilitation'". They don't believe this and respond: "Why, no! We'll solve it straightaway, it's absolutely obvious!" They lose the case once, they lose it for the second time. Then they begin to heed the advice of their seniors. In this way, the new generation is imbedded into the system.

The companies that are building their corporate management and internal control systems are mostly driven by the same motive as the one referring to our drivers when they find themselves on western roads. They immediately become obedient and compliant. If the sign says "60", they will drive at 60, they won't try driving at 100 or 200 kilometers per hour. This is simply the ne-

cessity to play by other rules, the rules of a higher level. Those who are forced to interact with western companies have to adjust themselves to the requirements existing in that market. To enter that market without an appropriate internal control system is merely pointless.

In a private company, stockholders only need the board of directors when they decide on the placement of their securities. In this situation, the board starts working and independent directors – mostly foreigners – are invited. They start asking questions. Everything starts spinning off, even without any external pressure.

But ultimately everything depends on people. Some time ago I was on the boards of two state-owned companies (whose names I would rather not mention). One of the boards was a sort of the USSR Supreme Council. The members got together, listened to information, and even voted. But all-in-all, it's nothing but a dead thing. In contrast, the other board was full of life with active committees and discussions touching upon practically every aspect of business. Their meetings often continued till three in the morning. This company also had the issues of ethics, fraud and corruption. But everything went through the board. The company managed to raise its corporate culture to the level unattainable even in private business.

Everything depends on the difference in the corporate culture, which is determined by people. Irrespective of whether it is a state-owned or private company.

Fortunately, my position is that of an independent director. And I try to remain independent. Apart from the compensation stipulated and paid officially, I am not engaged in any relations with the companies. When I am invited to join a board of directors, the first thing I consider is their team. And, of course, the nature of business is important as unless you are related to the industry in some way, it is hard to work on the board. As for the rest, the main element really is the human factor.



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# SIEMENS

## ONLY CLEAN BUSINESS IS SUSTAINABLE.

### SIEMENS EXPERIENCE: INTRODUCING COMPLIANCE CULTURE

Siemens, one of the global leaders of the electrical engineering and electronics industry, operates in over 190 countries worldwide. It has had presence in Russia for nearly 150 years.

In 2007 Siemens AG was accused of violating the Foreign Corrupt Practices Act – FCPA (adopted in the USA in 1977). The corporate internal control system and accounting practices allowed the company to make payments which were recognized to be bribes aimed at gaining special business benefits and maintaining business relations throughout the world. The total amount of penalties imposed on the company exceeded USD 1 billion.

Siemens AG was faced with the necessity to make radical changes in its corporate culture and introduce the Compliance (observing the legal and ethical standards) System of a highest level, which would handle both prevention and exposure of various violations of rules and procedures.

Siemens AG has also assumed commitment to finance its international initiative (Siemens Integrity Initiative – SII) designed to form and develop transparent and corruption-free markets. The first SII projects were started in 2010 in a number of countries, including Russia where the program is being implemented by the International Business Leaders Forum (IBLF). Currently about 30 projects are in place in over 20 countries.

#### Process of Changes

Formation of the Compliance culture has become the keystone of the development of the business. The fundamental principle underlying all Siemens activities asserts: only clean business is sustainable. Only clean business can be associated with the Siemens business. The changes are directed at the development of a special mentality of the employees based on the corporate

values, at minimizing risks and establishing the priority of long-term sustainability over immediate gains.

Embarking on the road of transformation, the company sets a number of objectives which it has managed to achieve. True, the process of development and improvement is unbounded by any limits but today it can be said that the company has built a clear-cut and independent Compliance function aligning abuse prevention and sanctions.

2007 saw the change of the Siemens AG global management team and the new top executives voiced and translated to all other management layers the so-called Tone from the Top. At present, regular trainings of employees are successfully delivered and the Compliance Helpdesk is in operation. Siemens has taken steps to organize Collective Action to counteract corruption.

Over the four years of its existence the Compliance (observing the legal and ethical standards) System has indeed become a part of company's corporate culture. While at the beginning of the process of changes and introduction of the Compliance culture employees opinion surveys used to show a certain grudge against the company process "bureaucratization", now everybody agrees that the Compliance principles and rules have been successfully integrated and are adequately perceived by the company employees.

The outcome of the efforts aimed at the company sustainable development is reflected in the fact that Siemens has been ranked the first in its industry as the most sustainable company for the fourth year in a row. This year Siemens AG has been the first in the category of diversified companies according to the DJSI (The Dow Jones Sustainability Index), while this category includes such companies as 3M, General Electric, Toshiba and Thyssen Krupp.

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### Compliance Control System Structure

The structure of the Compliance Control System is based on vertical and horizontal interactions and is characterized by clear division of authority and strict accountability.

The Chief Compliance Officer is a member of the Siemens AG Global Managing Board.

The Compliance Control System comprises six sections or aspects of activities:

- Compliance in the business sectors;
- corporate Compliance – Inter-Sector function;
- cluster function – regional Compliance;
- trainings and Compliance external communication,
- management team of the Compliance implementation and development project;
- several units inside the Service reporting to The Chief Compliance Officer include: Compliance Helpdesk and Monitoring, Compliance Legal Service, Compliance Investigation Department and Discipline Integrity Department.

Compliance with the legal and ethical standards is one of the four functions of the internal control system apart from the strategic, operational and financial ones. The Compliance program is included in the internal control system of Siemens but differs from all the others by its independent accountability.

The company has developed a clear-cut process of identifying and investigating abuses. Decision on imposing sanctions, which is primarily based on the local labour legislation, is made by the corporate disciplinary committee.

The prerequisite of successful introduction of the system is the triune formula of Compliance:

- Prevention – well-defined manuals and rules of Siemens business practice, training program and “Ask Us” Compliance Directory-Inquiry Helpdesk.
- Detection – “Tell Us” control and reporting system.
- Respond – transparent results of investigation and clear response to violations.

### Corporate Standards

The company has established guidelines and procedures for various aspects of its activities which are to be adhered to by the employees at all levels. These include the rules for participation in public sector tenders, contracting in different projects, interaction with business partners, regulations governing the procedure of granting benefits to third persons, including procedure of providing and receiving gifts, financial and business accounting and others.

Compliance standards are uniform in all the countries where Siemens is presented: the company applies the global approach with minimal regional deviations. For example, any payments in cash are forbidden according to Siemens standards. But, say, in Siberia employees have to buy warm gloves and make other minor purchases. Siemens company tries to find acceptable solutions but, on the whole. Cash payments are not in practice. When taking into account peculiarities of the regional legislation and business practice, the following approach is applied: deviations from the general standards shall not downgrade the control level of potential Compliance risks.

Entertainment expenses during meetings and talks are controlled. Any employee who is going to a restaurant with a government official, for example, has to coordinate it with the Compliance officers beforehand. There is a certain limit on such expenses and if it is exceeded a sig-

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nal has to be sent to Compliance officers. The company employees have got used to observing those rules: if you must not you must not. Siemens also controls events organized during overseas trips of our employees with partners – dinners, excursions. If the employee fails to agree upon their actions referring to the preliminary approval of such expenses, they will be penalized just for such failure.

Surprisingly, this system has not reduced the entrepreneurial activity of the company employees. The Compliance program fulfils a two-fold function: apart from controlling, it prevents potential risks of violating the Compliance norms and rules. The employees are sure that they can always apply for advice to Compliance officers, which will help avoid problems. The angle of sight has changed: it is not bureaucracy, it is help. Siemens Company and its employees are safely protected by the Compliance system.

Should any doubts arise as to the propriety of a certain action, employees have several options of resolving them. First of all, it is recommended to ask the following questions: Is the action in the interests of the company? Does it comply with company corporate values? Is it legally permitted? Am I prepared to be held responsible for this action? If the answers to all questions are “yes”, act. If there are any doubts, consult your superior or the Compliance officer, or apply to the “Ask Us” Compliance Directory-Inquiry Helpdesk.

### Cooperation with Business Partners

Cooperation with business partners has always been a special aspect of the Compliance program. Because “the FCPA makes no distinction between your personal actions and those committed by other persons in your name” thus, in some cases Siemens AG as a company may be liable for behavior of its business partners.

The company agreements with business partners contain an important and indispensable provision – termination of the contract in case the partner’s actions contradict the anticorruption legislation. Clear-cut rules on treating business partners are also stipulated for all of Siemens joint ventures.

All partners which fall under the definition of business partners in the Compliance framework are divided into categories depending on the risk levels. Relations with the high-risk partners are controlled most thoroughly. This category often includes counteragents who are intermediaries between Siemens and government bodies. First of all, their activities are to be checked to see whether these comply with the company interests and Compliance culture, their business background, business contacts with the government bodies and public officers. There is also control over assignments and amounts of fees to be paid to high-risk counteragents. Their contracts always contain clauses stipulating compliance with special rules of behavior in their relations with the government officials, i.e. ban on any corrupt activities.

The results of cooperation with business partners are monitored to see how their obligations have been fulfilled and if there have been any violations on their part. Should any facts be revealed that can negatively affect Siemens reputation, the partnership relations is terminated. The experience shows that the cost of short-term benefits that may harm company reputation is much higher than the business lost due to splitting up with the unreliable partner.

### Training and Support

A major role in the integration of Compliance culture is played by regular Compliance trainings. First time new employees learn about the Compliance program at their

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induction seminar. All other employees attend special four-hour training devoted to the problems of combating corruption. Employees are trained in accordance with their duties performed in the company and their area of responsibility. There are two types of training: in-person and web-based trainings. In-person trainings are designed primarily for the company executives, managers communicating with government bodies and for the personnel involved in sales, purchases and project management. Web-based trainings are provided for particular groups of employees depending on their positions in the company and scope of their duties.

Fulfillment of Compliance norms and regulations is integrated in the employee compensation system. Annual bonus is related to the Compliance Performance Index which is determined by the headquarters for each region. The key Compliance Performance indicators amount to 17% of the management compensation system.

The Compliance Control System is also supported through the Internet. The Helpdesk operation is maintained by Siemens itself. The Website, hotline for whistleblowers and the database storing personal data and all information obtained with regard to abuses are supported by an independent company based in the

USA. The Siemens AG Website contains the corporate Business Conduct Guidelines and the five tools of Compliance support:

**Ask Us** – Compliance Directory-Inquiry Helpdesk, which helps the employees get answers to their questions about the Compliance Control System and the procedures to be used in particular situations.

**Find It** – selection of information related to the Compliance issues, answers to most frequently asked questions, policies and guidelines, training materials, CEO's video appeals on various issues.

**Improve It** – the online tool through which employees can make suggestions on improving the Compliance program.

**Approve It** – the online platform to obtain approval on requests concerning gifts and hospitality.

**Tell Us** – the online tool that can be used by the company employees and by its customers, suppliers and business partners in order to report on violations of the company business conduct guidelines at any time from any part of the world – safely and confidentially. Messages in Russian are also accepted.

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# HILTI

## CORPORATE CULTURE DEVELOPMENT

Hilti is the world leader in construction equipment and consumables. The company was established in 1941 by Martin Hilti as a small family business (mechanical shop) with only five people. Currently, Hilti Group has 120 subsidiaries throughout the world employing 20,000 people.

Hilti Russia started its operations in 1993. Our company is among the fastest growing in the Group. The head office is in Moscow, with over 700 people working all over the country, from Kaliningrad to the Far East.

Although being a large international corporation, Hilti has remained a family business that keeps its values of integrity, courage, teamwork and commitment intact. We are operating in the building sector where mutual trust between partners is of utmost importance and, at the same time, there is always a risk of abuse and unethical behavior. We establish direct contacts with our customers and build long-term relationships. This approach was determined by the founder and has not changed throughout the history of the company.

### **Excellent Employees are Most Valuable Asset of Business**

Long-term relations with customers and partners would be impossible without confidence in our employees who are the main determinants of the company success. They, rather than products and services, are the most valuable asset of the business. Therefore, we pay great attention to the corporate culture that should be in line with the strategic goals. Catchy slogans and pompous mission statements have become a mere commonplace in the business community, whereas reality often contradicts proclaimed principles. The core of the corporate culture and ethics is formed by the founders of the organization and is directly associated with their background, experience and world outlook. The company owner and, until recently, Chairman of the Board of Directors,

Michael Hilti has taken as a basis for strategic development the principles similar to those laid down in Jim Collins's book "From Good to Great": sustainable profitable growth in the long run together with excellent reputation. This is what we are striving for and relying upon.

Corporate culture development is a slightly misleading term. A company always has some kind of corporate culture, certain written and unwritten rules, habitual patterns of staff behavior. But the question is whether this behavior corresponds to desired state of culture. The experience has shown that the desired behavior cannot be established through written rules and disciplinary actions alone. More delicate things, such as values, principles and attitudes, should be handled here. If you count on the staff loyalty, you should thoroughly understand what their motives are, what they



Vladimir Mosny  
General Manager  
Hilti Russia

expect from the company, how they want to develop. Thus, a few years ago Hilti's top executives made a decision that corporate culture development should be influenced in a systematic way. In practice, this means implementation of a corporate culture development system, regular communication of the company's vision and plans, complemented with regular feedback from employees, and trainings.

Internal policies and procedures prescribing or prohibiting certain actions such as the Code of Conduct, anticorruption provisions and an advanced system of internal control and audit are an integral part of the culture development system. Hilti is very consequent in practicing its principles in day-to-day operation and also has a system of disciplinary liability up to dismissal, which is not typical of Russian employers who prefer to avoid potential consequences. The real effect, however, was achieved when we started introducing training and awareness programs which not only affect the employees' behavior but help clarify the link of their life principles to the company values. Our experience has shown that substantial costs (the company invests about USD 10 million and 35,000 working hours in training sessions and corporate culture development events throughout the world) result in much higher performance than any penalty system.

#### **Clear Guidelines**

Every Hilti new hire is provided with the so-called "new hire folder" containing information about the company, its mission and values, as well as certain requirements and recommendations on how to behave in various situations.

For example, we have included a compact version of the Code of Conduct there. The Code provides a guideline on how to behave when an employee is faced with a "grey area" situation between right and wrong. We

suggest considering two central questions: 1) Does my superior like it, if he/she hears about it? 2) Do I like it, if my action is reported in the newspaper?

If at least one of the answers is "no", the employee should refrain from such actions.

The Code also clearly defines the actions which should be avoided:

- offering bribes, either direct or indirect;
- offering political contributions;
- giving or receiving gifts, covering expenses of other people or making them cover your expenses, if it affects or might be perceived to improperly affect the outcome of procurement or other business transactions;
- offering gifts, hospitality or covering expenses of employees of government customers, including all levels of government;
- committing the violations listed above through intermediaries.

Adherence to the internal rules is regularly audited. Employees can get advice and support from their superiors, or HR Department. Any violations can be reported by using one of 2 helplines set up in the company: one of them is a central helpline in Hilti headquarters, the other one is a local helpline for Russian-speaking employees. At the same time, employees can always report directly to the Internal Auditor. Although Russian employees seem to be reluctant to act as whistleblowers, the company management considers this method to be an efficient way of disclosing fraud and abuse. According to our Internal Auditor's unofficial statistics, 60% of violations were discovered with the help of such reports.

#### **Continuous Training**

During the first month of employment new hires attend a two-day orientation session where the trainer gives

them profound information about the company, its purpose and values, standards of behavior. The major part of the training session is devoted to enhancing the employee's self-awareness, understanding his/her role in the company, career and personal development prospects. We provide them with basic insights into time management, leadership, personality typology. The orientation session is followed by the extensive training on Hilti products.

Training sessions are facilitated by our employees who are not simply "trainers". These are corporate culture development professionals; their role is to guide the employees through our culture – Our Culture Journey. We call them "Sherpas" and this is a full-time job. Hilti widely uses alpinist terminology, which is not surprising since our headquarters is situated in the heart of the Alps, in Lichtenstein. After the orientation session, employees participate in off-site trainings every one or two years, we call them intermediate camps (like climbing camps): Base Camp, Rubicon, Pit Stop, Moment of Truth. Each camp is related to the previous one and focused on a specific deep-dive into team work and personality development topics.

#### **Regular Research**

Hilti takes part in annual studies of employees' satisfaction levels that are carried out by a third party organization. The findings are used to determine the level of satisfaction in various spheres (relationship to company, team leader, atmosphere in team, work/life balance, etc) as well as areas that need improvement. The latest study involving 90% of the staff showed that 86% of our worldwide team are proud of working for Hilti.

In 2011, the same as in 2008, Hilti was the fourth in the Best Russia's Employers research conducted by Hewitt Associates, the world leader in HR management and out-

sourcing. Over 90 biggest companies operating on the Russian market participated in the research. Hilti became the only best employer in the construction sector and the best European company in the Russian labor market among the winners.

We are also regularly engaged in studying our customers' satisfaction, which helps us improve business processes and enhance the quality of the services in the company.

What is the labor turnover at Hilti? This indicator does not exceed the acceptable annual rate of 12%, and it should be mentioned that our employees tend to leave the company because they have received an offer of a higher position rather than because they are dissatisfied with their career at Hilti. We are striving to develop our employees: approximately 80% of managerial positions worldwide are filled in by internal candidates. Hilti provides opportunity of both vertical and horizontal moves.

#### **Compliance**

Hilti strictly adheres to its internal Anticorruption and Gift & Hospitality policies. According to the company owner, Hilti should rather be prepared to lose the turnover which would be accounted for by improper gifts.

We facilitate an honest and open dialogue on complicated topics. Within the framework of our annual meeting with the employees last year we organized a special section on ethical issues. The facilitators were our Internal Auditor and our Sherpa, a corporate culture expert. To be honest, we had not expected that people would start speaking openly about issues of non-compliant behavior. Now, we are proud that we managed to create the atmosphere which enables people to discuss such difficult issues.

### **Collective Actions**

Hilti is not only concerned about the corporate culture and zero-tolerance towards unethical behavior inside the company but it also tries to disseminate the principles of business ethics throughout the markets. This is vital both for sustaining the goodwill and for creating appropriate conditions for our operations. Hilti joined the PACI (Partnering Against Corruption Initiative), this is the initiative of the World Economic Forum, Transparency International, Basel Institute on Governance in construction, power, mining and metallurgy sectors. Hilti is also a member of the UN Global Compact. Participation in collective actions gives access to the world's best practices in business ethics standards, the opportunity of sharing experience with other companies, but it also imposes strict obligations. After joining these initiatives Hilti reviewed its internal policies in order to fulfill these obligations. We also impose

certain requirements on our suppliers which have to comply with similar norms in their operations. In order to be our supplier, they have to observe and comply with the Code of Conduct for suppliers.

Business ethics is not the only way how we positively influence the society. The Hilti Foundation supports selected activities and projects worldwide with a clearly formulated claim to offer help for self-help and sustainability, which also reflects the values of the Hilti family and the Group.

In 2011 our company became a corporate member of the International Business Leaders Forum (IBLF), and we are actively supporting its projects. Two Hilti employees, Internal Auditor and Sherpa, in 2011 spent half of their working hours developing the program "Improving Business Standards in Russia".





## TNK-BP

### CREATING A CULTURE OF UNIFORM BUSINESS ETHICS STANDARDS

Corporate ethics have been a central priority for TNK-BP since the Company's foundation in 2003. Today, TNK-BP is devoting even more attention to the development of business ethics to ensure that the Company's approach to business ethics compliance reflects international best practice. Our efforts in this sphere have intensified for two key reasons.

These days we note a trend where many countries, including Russia, are tightening anticorruption and antibribery legislation and enhancing law-enforcement practices. One of the latest significant factors affecting the development of the Company's business ethics was the adoption of the UK Bribery Act on July 1, 2011.

At TNK-BP there is no question as to whether the Company falls under the jurisdiction of the Act. This legal document has served as a reference point for setting new standards in business ethics, compelling the Company to move towards the goal of preventing corruption in the context of its own business environment.

Furthermore, with TNK-BP recently having acquired assets in Venezuela, Vietnam and Brazil, the Company is evolving into a truly international business and strives for further international diversification. Thus, there arises the need for uniform ethical principles across the entire Company. TNK-BP is guided by the requirements of British antibribery legislation and, as such, intends to apply the strictest ethics principles in running its business.

In essence, ethics is a collection of moral standards. Most of them have been codified in legislation, while others are not yet embodied in laws. Much the same way that ethical norms passed down from our parents and family, teachers and mentors affect our behavior and relations with the world, corporate ethical stand-

ards established by legislation, shareholders and top management set a framework for the company's approach to business.

TNK-BP has established a Code of Business Practice which determines the guidelines and values lived out by the Company and its employees in business, enabling



**Paul Kitson**  
Department Director, Compliance, EWRM and Ethics  
TNK-BP Management

us to build up the Company's goodwill. Our customers and suppliers know that TNK-BP always keeps its word. This forms the reputation of a company that can be trusted. Such a reputation serves as the foundation of all business relations, interaction with the government and other stakeholders.

Issues of business ethics refer primarily to the management of conflicts of interest. Such situations or circumstances can lead to partiality and bias in making decisions on behalf of the Company. Conflicts of interest can result from receiving expensive gifts from a supplier, investing in a competing business or supplier company, engaging in personal projects during working hours or the pressure of personal projects that can prevent an employee from properly doing his or her work for the Company.

The Company should undertake measures to avoid being involved in illegal activities unintentionally. For example, it is necessary to make sure that money received by TNK-BP for the goods sold are not of a criminal origin, that none of its counteragents is engaged in bribery when providing services for the Company or acting on behalf of the Company.

TNK-BP is presently updating its internal regulatory documents governing the issues of business ethics. As a result, the Company employees will receive the uniform Business Ethics Standard outlining basic mandatory guidelines. The new Standard will combine the three existing standards related to gifts and hospitality, conflicts of interest and principles of business operations. Its provisions will become clearer and easier to understand. The Standard will include new rules and regulations which were not explicitly stated in the corporate internal documents up to this point.

At the top of the document "pyramid" is the Code of Business Practices, which lays out the Company's

values and basic business principles. The next level is the uniform Business Ethics Standard. Upon approving the Standard, the Company will ensure that every employee understands its provisions properly and uses them in their day-to-day work. The bottom level contains the Procedures describing the processes and ensuring compliance with the rules stated in the Standard.

It should be emphasized that the Standard and the Procedures will be valid and binding for everyone – directors, top managers, and all those employed under labor, civil or agency contracts. TNK-BP will also take measures to ensure that agents and consultants – those who represent the Company – follow the same rules and regulations.

Ethics is a personal matter. Some see it as adherence to personal values, others as following religious beliefs.

Each of the Company's employees is free to follow their personal convictions, whether they be political views or religious beliefs. However, the Company does require employees to refrain from proselytizing or campaigning in favor of personal views at work, and using the Company's resources for such proselytizing or presenting certain personal views as the position of the Company. The Company is apolitical.

At TNK-BP, we understand an ethical company to be one where the top management's commitment to ethical standards and values is obvious, the behavior of senior executives does not raise doubts and they set the tone by serving as an example. This determines people's attitude to ethical issues throughout the organization. Another important point is that working with integrity is a criteria on career growth and promotion.

The ethical employee is aware of the limits of ethical behavior and will never cross those lines. He or she is



also able to discuss ethical issues openly. If a TNK-BP employee notices actions which may be considered to go beyond the limits of acceptable behavior, he or she is obliged to report it. They can even use our round-the-clock Security Hotline.

At TNK-BP nobody will encounter bias or be punished for whistleblowing. Confidentiality is guaranteed. In cases of reporting misconduct, one should apply to their immediate superior. Alternatively, one can contact a business ethics expert or any other trusted officer. Business ethics experts, as their title suggests, are officers who are well-versed in the Company's ethical standards and are prepared to solve such problems. Additionally, these officers also help coordinate the annual ethics performance review.

It is not by mere chance that TNK-BP is developing uniform ethical standards to be applied consistently group wide. Applying different standards in different markets can harm the Company's reputation.

The main business process that enables the Company to mitigate the influence of conflicts of interest within the

organization is to carry out procurement tenders. This is the way that TNK-BP ensures the best prices.

Another element in managing conflicts of interest is control of insider information – confidential information which, if disclosed, can result in changes of prices of the Company's shares, bonds or commodities. New Russian legislation regulating this sphere was introduced in July 2011, and TNK-BP is in the process of reglamenting guidelines for insider information.

The country of Denmark ranks as one of the least corrupt nations in international corruption ratings. Russia ranks 154 out of 178. The government of the UK, which has some of the strictest anticorruption laws, has attempted to measure the level of the people's happiness in various countries. As it turned out, people in Denmark are overall some of the happiest. One of the reasons for this is the high level of trust among people. TNK-BP, within the framework of the changes that are currently being implemented, has decided to put in place a delegation of authority matrix, providing the Company divisions with greater autonomy. It is our goal at TNK-BP to achieve high levels of trust by applying high standards of business ethics.



## Sakhalin Energy Investment Company

Corporate Social Responsibility: Business Ethical Standards and Community  
Grievance Procedure. Implementation of Ruggie Principles

# SAKHALIN ENERGY INVESTMENT COMPANY

## CORPORATE SOCIAL RESPONSIBILITY: BUSINESS ETHICAL STANDARDS AND COMMUNITY GRIEVANCE PROCEDURE. IMPLEMENTATION OF RUGGIE PRINCIPLES

Sakhalin Energy Investment Company Ltd. is the operator of the Sakhalin-2 project and was established in 1994 for the purpose of implementing this project.

Sakhalin-2 is the world's biggest integrated oil and gas project implemented in the harsh environment of the Sakhalin Island in the Russian Far East. Since 1999, the Company was seasonally producing oil from Molikpaq – Russia's first offshore ice-class platform, as part of Phase 1 of the project. Two more offshore platforms were built and commissioned during Phase 2, which also included around 300 km of offshore pipelines to connect all the platforms to the shore, onshore oil and gas pipelines making altogether 1,600 km in length, an onshore processing facility, oil export terminal, and Russia's first liquefied natural gas (LNG) plant launched in 2009. Being Russia's most innovative and technologically advanced project, Sakhalin-2 plays its part in overall development of the Russian oil and gas industry.

### Corporate Business Ethics Commitments

Implementation of a project like this would not be possible without strict adherence to the best international standards in business ethics and corporate social responsibility (CSR), and sometimes even development and implementation of new standards. Relevant commitments, being part of loan financing, are covering all health, safety, environment, and social issues. They have been systematized in the Health, Safety, Environment and Social Action Plan, which was developed with active engagement of all stakeholders. The Plan can be found on the Company website at [www.sakhalinenergy.ru](http://www.sakhalinenergy.ru).

The Company adheres to the following key principles in its practice:

- observance of and respect for human rights;
- accountability and transparency;

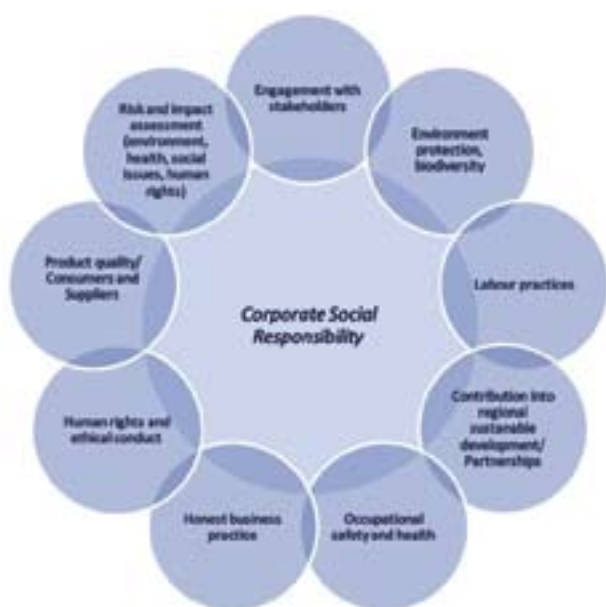
- ethical conduct;
- respect for stakeholders' interests;
- supremacy of the law;
- compliance with internationally accepted codes of conduct.



Andrei Galaev  
CEO, Sakhalin Energy Investment Company Ltd.

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Corporate Social Responsibility Practices

Apart from the aforesaid Health, Safety, Environment and Social Action Plan, other corporate documents have been adopted in the Company, which address the business ethics and corporate social responsibility standards. The key ones are:

- Statement of General Business Principles;
- Code of Conduct;
- Health, Safety, Environment and Social Performance Policy;
- Antibribery and Anticorruption Procedure;
- Community Grievance Procedure;
- Public Consultation and Disclosure Plan;
- Risk and impact assessment procedures.

Besides, the Company is the member of the UN Global Compact – international initiative, connecting the businesses and targeted at support and implementation of basic human rights standards, labor relationships, environmental protection and prevention of corruption. After joining the UN Global Compact in November 2009, the Company soon became one of its most active participants. The Company's CEO, Andrei Galaev, was elected as Steering Committee's Chairman of the Global Compact Network in Russia.

### Compliance Control

The Company's adherence to accepted commitments is regularly monitored by relevant Company's officers and top management, as well as audited by lenders, their consultants, and independent auditors. Pursuant to the Production Sharing Agreement (PSA), lenders' requirements set forth in financing agreements, and proprietary standards the Company submits regular reports on delivering these commitments which are open to public and other stakeholders.

The Company's corporate social responsibility and sustainable development activities are covering a wide range of areas. These areas are too many to fit into this article, so we decided to touch on one of them, on the grievance procedure.

In 2009 Sakhalin Energy became one of the five companies worldwide selected for testing the so-called Ruggie principles as applied to corporate grievance-addressing mechanisms.

The principles were developed by Professor John Ruggie under the mandate of Special Representative of the UN Secretary-General on Business and Human Rights. They were stated in the Guiding Principles for the UN Protect, Respect and Remedy framework. The basis for

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the principles are three fundamental pillars: the states should protect human rights; the corporate responsibility is to respect for human rights; and the society, people who are harmed by business should have an access to judicial and non-judicial remedy mechanisms, including corporate. Nowadays, when impacts from businesses are rapidly increasing, a greater social responsibility shall be imposed on such businesses. Business shall adopt and operate corporate policies and relevant mechanisms that ensure observance of and respect for human rights, e.g. grievance procedure to be norm of daily operation.

In this testing, Sakhalin Energy was representing both Russian business and the oil and gas industry at large. As a result, experience gained by Sakhalin Energy in implementation of the Community Grievance Procedure was highly appraised by the participants of this program.

In June 2011 the above-mentioned UN Guiding Principles were endorsed by the UN Human Rights Council to become a practice guideline for business around the world on human rights issues, including effective

In 2010 the Company and representatives of Sakhalin Indigenous Minorities and Sakhalin Region Government jointly developed and agreed a Grievance Procedure to address grievances and concerns related to Sakhalin Indigenous Minorities Development Plan. This procedure was discussed with the public both at development and approval stages. Development and adoption of this procedure is another testament of robust partnership with Sakhalin Indigenous Minorities, and of the Company's commitment to the principles of corporate social responsibility.



grievance-addressing mechanisms. Thus, a new international ethic and corporate social responsibility standard was contributed by the grievance model implemented by Sakhalin Energy.

### Community Grievance Procedure

Community Grievance Procedure was developed and is being implemented by Sakhalin Energy as a procedure for consistent and systematic dealing with grievances and concerns.

This document appeared and was first implemented in the beginning of Sakhalin-2 construction phase. After construction was completed, the social impact by the Company has considerably reduced. Nevertheless, the Grievance Procedure is continuing to be implemented at operational phase as well. It helps meet the long-term goal of establishing strong and effective relations with all those who are affected by the Company's activity. The procedure is to ensure that grievances are timely and

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effectively resolved, less likely to appear again, properly documented, and that respective corrective, preventive measures are taken.

The following are key principles of the Sakhalin Energy's Grievance Procedure:

**Legitimacy and incorporation into management systems** (grievance procedure consists of elements and mechanisms that ensure trust by stakeholders and affected groups targeted by this procedure).

The Grievance Procedure includes independent patterns for assessment, resolution and monitoring of grievances. The Grievance addressing status and progress are controlled by the Company's top management, and audited both externally and internally. Furthermore, the grievance handling process is assessed by independent committees, and carefully registered and tracked in the automated incident tracking system, the so-called Fountain System.

**Accessibility** (ensure awareness of all targeted stakeholders).

There are different channels for lodging grievances and, thus making the Company maximum accessible in communicating with complainants. Among those channels are the Company's Information Centers set up in 23 Sakhalin communities, Community Liaison Organization, dedicated hotline, email, etc. The Company uses feedback from the population and other stakeholders to assess the effectiveness of these channels. Effective awareness campaigns and trainings are held to keep community and contractors/subcontractors up to date of the Grievance Procedure.

**Transparency and openness.**

The Company regularly informs all stakeholders of the status and progress of grievances handling, furnishing enough details on their results, and incorporates the

grievance updates in public corporate reports.

**Stakeholder engagement and ensuring dialogue during grievance addressing.**

Sakhalin Energy conducts regular consultations with communities and other stakeholders with regard to effectiveness of the grievance addressing process. Such consultations are part of community engagement and meetings with focus groups, as well as of internal social performance monitoring. Special emphasis is laid on dialogue with complainants as part of grievance addressing and decision making for resolution.

**Predictability in terms of process and ensuring concerted actions** (ensuring predictability – a clear and straightforward procedure, setting time limits for each stage).

The Procedure sets clear time limits for grievance handling and communication with complainants throughout the process of its resolution.

**Confidentiality.**

All grievance-related issues are addressed confidentially. Information of complainants is not to be disclosed without a complainant's written consent thereto.

**Applicability both for the Company and contractors.**

The Company's Grievance Procedure is mandatory for all of the Company's functions, as well as by contractors and subcontractors.

**Using the experience gained for preventive and proactive measures and continuous improvement.**

All grievances filed with Sakhalin Energy are tracked and the tendencies are analyzed. Based on such analysis, recommendations are formulated to the Company's relative functions and contractors/subcontractors with respect to impact mitigation and preventive measures.

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# OMK

## UNITED METALLURGICAL COMPANY. PRIVATE COMPANY CORPORATE ETHICS DECLARATION

The history of United Metallurgical Company (OMK) is the history of revival of a large group of iron and steel works. This coincided with the period of Russia transition to a new stage of economic and historical evolution. The year of 1992, when United Metallurgical Company was established, was marked by a series of major events. It was the year of the inception of the economic reform, the time when important political documents concerning the relations between Russia and the CIS were signed, finally, the year when the Russian Federation was recognized as an independent state by most nations of the world. The creative spirit of the time was reflected in the Company startup. The Company began with construction of the titanium iron facility using the borrowed funds and the investment was paid off in less than a year. The company founders, including Anatoly Sedykh, current Chairman of the OMK Board of Directors, decided to put the return into the business development. This same principle – investment in the Company development – has been characteristic of OMK up to the present days. The recent seven years, for instance, saw RUB 150 billion investment in the construction and refurbishment of the production facilities. Nowadays, OMK is one of the world leaders in production of large diameter pipes and railroad wheels.

2007 was a significant landmark in the development of the OMK corporate management. It marked the beginning of a wide-scale effort to put together the board of directors as an active management body. For that purpose, an independent director was elected and the post of the Company Secretary introduced. At the same time, the internal audit service was being created.

OMK Closed Joint-Stock Company is a private company, and such large-scale corporate management transformations could seem to be superfluous. But the best practice shows that an effectively performing com-

pany cannot be created without adequate improvement in its management. OMK is a managing company for a number of enterprises in the iron and steel industry, which dictates the need to take into account the interests of all the group stockholders and imposes certain obligations and serious requirements with respect to the management standards. These requirements refer both to the professional and ethical standards. In June 2007, OMK Group adopted its Corporate Ethics Declaration.

The document states: “The OMK Board of Directors has adopted the Corporate Ethics Declaration so that the Company Directors, executives and employees would adhere to the high standards of corporate ethics and the activities of the Company staff would serve the interests of the stockholders, investors and the Company as a whole.”

The main purpose of the Declaration is to make the employees understand one of the basic principles of corporate behavior “avoid conflicts of interest”. The Declaration is generally aimed at the top and middle managers, the officers who make decisions having a noticeable impact upon the Company performance as a whole.

We see the Declaration as a document that forms the basis of proper performance and investment appeal of the Company. The provisions of the Declaration promote confidence between all the participants of the corporate relations based on honesty, integrity and reliability.

Pursuit of the ethical principles and norms helps avoid unjustified risk, promote sustainable economic growth, enhance the Company position in the Russian and global markets, increase its capitalization and profits and form positive expectations with respect to behavior of the corporate relations participants.

One of the most important conditions of properly serving the interests of the Company, stockholders and investors is protection of confidential and insider information, protection of the Company ownership. Therefore, the main part of the Corporate Ethics Declaration is about how to avoid conflicts of interest by managers and how to use the insider information.

There is nothing extraordinary about the requirements of the Declaration. Its standards are simple to understand and easy to observe by anybody. Let's consider the following provisions:

"2.2. The Company Directors, Auditor, senior officers and other employees shall assume the obligation to work honestly and adhere to the following principles underlying this Declaration:

- comply with the requirements of the current legislation, rules, standards and regulations to the fullest extent;
- meet high business ethics standards and be instrumental in settlement of apparent and implied conflicts of interest resulting from mutual interference of personal and professional activities;
- act honestly and decently in corporate relations, refrain from unfair methods of carrying on business affairs;
- constantly improve professional skills and knowledge in order to perform one's duties most efficiently;
- in making decisions, not only consider their economic expediency but also other people's decisions and other stakeholders' interests, while emphasizing the Company interests;
- disclose the information to be presented to the Russian and foreign government regulating authorities, stock exchanges, stockholders, investors and other interested parties in full and in a timely manner;

- comply with the requirements of the Company internal documents concerning the use of confidential and insider information obtained in the course of discharging one's duties;
- exclude the possibility to use one's position for personal benefit, including the use of the Company assets, avoid relying on self-interest in making decisions."

It is to be noted that the provisions of the Declaration are not unilateral: not only are the stockholders' interests protected. They also help employees find a good way out in a tangled situation which can affect their career and relationships with coworkers and managers. Transparency in work, integrity in relations – those are, in our view, the foundations of high-performance business.

Our experience of applying the Corporate Ethics Declaration has shown the necessity to amend it from time to time. But no radical overhauls have been made, which proves the validity of the basic policies and principles formulated as far back as 2007. That could not have been otherwise if we think about our approach to the concept of corporate ethics as a set of moral principles and norms of corporate relations.

As we have mentioned, the Declaration is aimed at the people making decisions which affect the Company performance. In 2011, the range of people covered by the Declaration was extended by including in-law relatives in the group designated as "family members", thereby enhancing the aspect which, in the framework of the basic policies and major principles, can directly influence the management reputation.

The Declaration is open to the public. Since its adoption by the Board of Directors, its text has been posted to the Company website and the OMK internal portal. In

In addition, the employees received emails containing the text of the document. OMK Team, the corporate newsletter, has published papers by the Company corporate management experts explaining how the Declaration norms should be used.

Taking into account the importance of the Declaration compliance, the Board of Directors has retained its full authority to make decisions on the matters governed by the Declaration. The implementation of the provisions and norms is coordinated by the Board and enforced by the officers and departments directly reporting to the Board. All claims about conflicts of interest are first submitted to the Company Secretary, then checked by the Security Directorate before being examined by the Board of Directors. It is to be noted that all materials sent to the Board of Directors are initially considered at meetings of the Management Board. That enables a more careful examination of the matter and ensures its transparency. The feedback on the examination of claims and complaints is also communicated through the Company Secretary.

The Declaration stipulates that “the use of one’s official position is only possible in the Company interests and no outside-of-office activities, interests or relationships shall influence or cause harm to the Company or give appearance of such influence or harm”. Therefore, it is only natural that any employee being aware of violation of the Declaration provisions has the right to inform the Board of Directors of such violation and ask questions with respect to the practical use of the provisions.

Continuous monitoring of compliance is carried out by the OMK Security Directorate who are systematically engaged in search and exposure of transactions made in situations of conflicts of interest, in finding personal interest, identification of beneficiaries, assessment of possible risks and actual and potential damage to the Company. All information on discovered cases of violation of the Company interests is submitted to the Board of Directors.

**The International Business Leaders Forum (IBLF)** is an independent, not-for-profit organization working with leading companies on the responsible business agenda. The mission of IBLF in Russia is to promote the sustainable and stable growth of Russia's economy and society.

Our programs help businesses grow whilst simultaneously promoting long-term social development. IBLF's activities in Russia are directed towards the improvement of business standards, support of youth entrepreneurship, enhancement of financial literacy, assisting companies in environmental risk management and developing corporate volunteering.

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**For further information about IBLF, visit [www.iblf.org](http://www.iblf.org) or [www.iblf.ru](http://www.iblf.ru)**







