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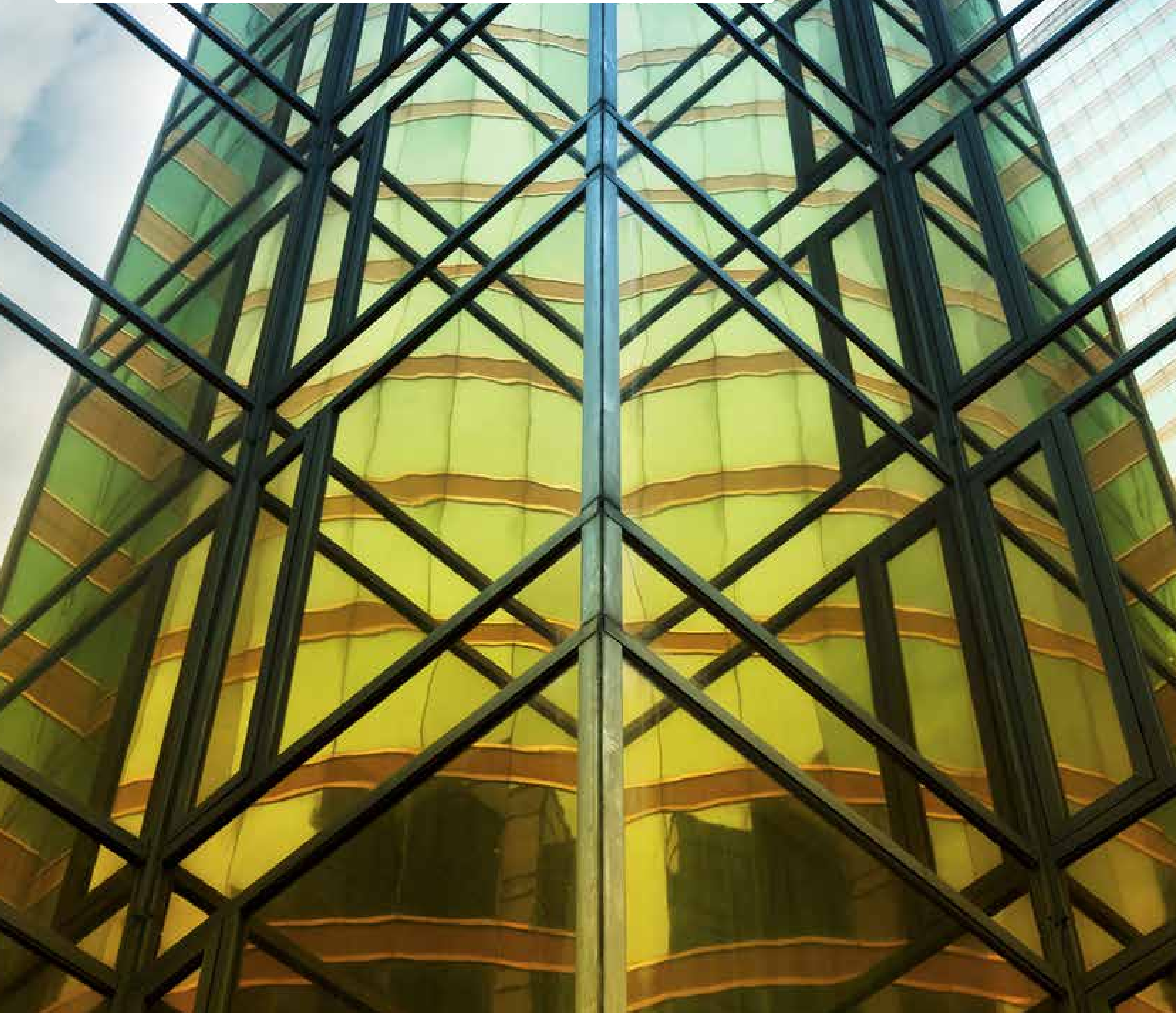
25 years in Russia

Corporate Governance Structures of Public Russian Companies

Survey by the Deloitte CIS Centre for Corporate Governance, 2015



Contents

Executive summary

Our 2015 survey of corporate governance structures of public Russian companies is based on a review of public disclosures, covering the ownership structures and board compositions of 120 public Russian companies. This is the second such survey by the Deloitte CIS Centre for Corporate Governance, following up on and tracing the market trends since 2012 when the first corporate governance survey was conducted.

Our analysis took place against the backdrop of a challenging economic environment, with a combination of foreign sanctions and low hydrocarbon prices having slowed the economic growth to 0.6% in 2014 and caused decline of an estimated 3.8% in 2015[1]. The national currency devalued 54% over the same two years and the RTS index lost 48% over this period. The findings of our survey should be viewed in the context of these circumstances.

In conjunction with other, earlier research[2], our findings suggest that the trend towards gradual improvement in corporate governance structures in Russia came to a halt around 2012. The average share of outside board directors remained flat at 27%, whereas the number of boards with outside majorities actually fell by twelve (adjusted for changes in methodology), leaving only nine companies in our sample.

Several best practice recommendations introduced by the new Russian Corporate Governance Code (the Code) in 2014 appear to be slow to take root. We estimate that no more than 41% of companies in our sample (38% in the case of Russia listed companies) were in compliance with the Russian Code in terms of the recommended 33% share of independent directors. Only 13% of boards had outside chairpersons and only 18% reported having appointed a senior independent director. Only 22% of companies reported having performed either a self-assessment of the board (16%) or an external board performance review (6%) despite an explicit requirement to that effect in the new Russian Code, as well as the UK Code, which some companies in our sample implement.

In terms of ownership structures, we observed a tendency towards increased concentration. In our sample, 73% of companies were majority owned, an increase of 8 percentage points since 2012, accounting for changes in our sampling approach. Furthermore, 95% of companies in our sample had at least one block holding representing 25% of shares or more. Interestingly, we found that almost a quarter of companies had quasi-treasury shares, and these on average accounted for 7% of the respective companies' ordinary shares. Accounting for changes in our methodology, the average share of free float remained flat at 25%.

The number of government-controlled[3] companies in our sample (both held directly and indirectly) slipped to 34 from 39, primarily due to several smaller companies having lowered their listing levels. The share of government-controlled companies in the aggregate market capitalisation of our sample decreased to 41% from 46% in 2012. This decrease is mainly due to the relatively stronger hit on stock prices experienced by government-controlled companies. For the government-controlled companies present in both samples (2012 and 2015), the aggregate market capitalisation fell by 47% in the period between 2012 and 2015 in USD terms, while the decrease in the aggregate market capitalisation of the entire sample (excluding the AIM segment) over the same period was 34%.

We conclude that the traditional drivers for corporate governance improvements at Russian companies appear to have run out of steam. Pressures from the international financial markets served as the main driving force in the past decade, and they seem to have less impact during adverse market conditions. In addition, the government's programme for independent appointments at government-owned enterprises saw a partial reversal in 2014 and 2015 as the government resumed appointing senior officials to boards.

At the same time, new regulatory initiatives in corporate governance, including the new listing rules (2014), and the comply-or-explain framework, have not yet gained momentum – and the idea of creating a premium governance segment on the Moscow Exchange, entertained in 2012 and 2013, was suspended. Several requirements of the new listing rules (released in 2014 and amended in 2015), are expected to take effect in 2016, including those pertaining to minimum liquidity and, indirectly, the size of free float. The implementation mechanisms of the new Code are now central to governance regulation, and in this respect, the new framework for comply-or-explain reporting is only starting to play a role. The Central Bank of Russia (CBR) published specific guidelines for compliance reporting in February 2016, potentially increasing the effectiveness of this implementation tool.

[1] World Bank estimate.
[2] Deloitte CIS "Corporate Governance Structures of Public Russian Companies" Deloitte Centre for Corporate Governance, 2012.
Standard & Poor's "Transparency and Disclosure by Russian Companies 2010: Moderate Improvement in Transparency Led by Power Utilities", Moscow: Standard & Poor's, 2010.
Standard & Poor's, "Corporate Governance: Transparency and Disclosure by Russian Companies 2006: Modest Progress amid the IPO Zeal", Standard & Poor's Governance Services, 2006
[3] In the context of company ownership, we use the term "government" (such as in "government-owned stake" or "government-controlled company") in reference to the ultimate ownership by either the Russian Federation or any of the regions or municipalities of the Russian Federation. This term addresses only the type of shareholding and is not indicative of the actual involvement of the Russian Government or its affiliates in the corporate governance of specific companies.

Experts comment

Anton Malkov

Managing director, Head of Capital Markets, Sberbank CIB

Trends in corporate governance noted in this survey are organic to the market's shrinkage of recent years. It is commendable though that a majority of leading well-governed companies did not resort to cutting corners in this difficult environment.

Alexander Shevchuk,

Executive director, Institutional Investors Association

We (investors) hope that these findings reflect a transitional state of Russian governance infrastructure and that many companies will start implementing the Corporate Governance Code (CGC) guidelines both voluntarily and through meaningful encouragement from the Bank of Russia. We consider the election of a limited number of high-ranking officials to the Boards of Directors (BoDs) of state-owned companies to be extremely useful, among other things, in the context of improving the efficiency of independent directors, who now receive opportunities – with the right approach – to bring their opinions to the notice of real decision-makers. We are aware that the need for an efficient and well-balanced Board of Directors grows every year. It is vitally important that the government, being the largest shareholder, continues to reform the BoD, applying, among others, mechanisms of liability for the decisions the BoD makes or fails to make. It is especially important to pay attention to the number of quasi-treasury shares specified in the review, which proves the need to implement the (CGC) guidelines to prohibit voting these shares. The most effective way to do this is through legislation.

Oksana Derisheva

Director, Listings Department, The Moscow Exchange

One of the drivers of corporate governance in public companies is undoubtedly the regulation regarding listings of shares on the stock exchange. The absence of clear progress in the sphere of corporate governance in the last two years is due to the transition period introduced in June 2014 for the new listing rules in Russia. In particular, issuers whose shares are included in the quotation lists are currently in this transition period. The first part of the transition period will end on October 3, 2016. On this date, the issuers will have to have a board of directors that fulfills the mandatory quota of independent directors, board committees that comply with the relevant listing rules on composition and function, a new internal audit system, a corporate secretary and a dividend policy. The second half of the transition period ends on October 1, 2017. By that date, the criteria for director independence set forth in the listing rules and the Code of Corporate Governance will be fully synchronized. Therefore, issuers' reporting on corporate governance in the annual reports for 2017 will be revealing. The Moscow Exchange, for its part, provides consulting support to its clients and issuers in the progressive improvement of corporate governance practices.

Introduction

Our survey covers 120 Russian companies that have ordinary shares listed on tier 1 or tier 2 of the Moscow Exchange or on one of the leading international exchanges, such as the London Stock Exchange (LSE) (directly or through depositary receipts), the New York Stock Exchange (NYSE) and the NASDAQ Stock Market (NASDAQ). Our analysis covers virtually all listed Russian companies, with only a limited number of exceptions (companies listed elsewhere, i.e. other Russian exchanges, as well as in Hong Kong, Stockholm, Frankfurt, etc.). Our study covers listed companies for which Russia is the primary operating environment, regardless of their country of incorporation and the presence of a domestic listing.

Our analysis was based only on publicly available information presented in company documents (quarterly and annual reports, lists of affiliated entities, material facts notices) and on corporate websites. We accounted only for information published before 1 December 2015. Where such information was insufficient, particularly for our analysis of beneficial ownership, we relied on information presented in leading Russian business periodicals (Vedomosti, Kommersant, RBC). We excluded five companies from the sample due to either a lack of publicly available information on ownership structures (in two cases), or lack of any free float, based on public information (in three cases).

Our survey does not cover companies listed on tier 3 of the Moscow Exchange (formerly known as "traded outside lists" and currently including over 200 companies), due to their considerably smaller size, lower free float and liquidity, as well as the very limited requirements regarding corporate governance that apply to them. In 2015 the volume of trades in ordinary shares on tier 3 of the Moscow Exchange represented only 0.7% of total trades in listed ordinary shares on the Exchange[4]. Our survey also does not cover companies traded on the unregulated Alternative Investment Market (AIM) segment of the LSE, or any other unlisted companies. We also did not account for companies that have preferred, but not ordinary shares listed (e.g. Transneft) since we believe their governance fundamentals differ substantially from those of the companies included in our sample.

[4] Data provided by The Moscow Exchange.

Differences from the 2012 survey by Deloitte CIS

In 2012, the Deloitte CIS Centre for Corporate Governance conducted a similar survey on corporate governance practices in public Russian companies. We introduced some notable adjustments to the sample size and methodology in conducting the present survey.

Sample size

Our 2012 survey included 135 companies, a larger number than that in our present survey. This is mainly due to the exclusion of companies traded on the LSE AIM in our 2015 survey. We believe this approach is more closely aligned with our goal of covering the universe of regulated, listed companies.

Methodology

The methodology used in the present survey accounts for corporate governance guidelines and standards presented in the new Russian Corporate Governance Code (2014). The new code spells out more detailed and stringent requirements, for example with respect to director independence, which we integrated into our methodology. We also adjusted our method for calculating free float, as substantiated in our discussion on ownership structures.

Sample characteristics

Listing

Our sample includes 99 companies listed on tiers 1 and 2 of the Moscow Exchange. Thirty-six of these 99 companies had cross-listings in the UK or the US at the time of data collection. In addition, we included in our sample 21 Russian companies listed only outside Russia, whether in the US (NASDAQ or NYSE) or the UK (LSE Main). Some of these companies had shares or Russian depositary receipts traded (but not listed) in Russia (e.g. Lenta), while others were traded only outside Russia (e.g. Evraz, X5 Retail Group).

According to statistics presented on the LSE website, 50 Russian companies (i.e. with assets located primarily in Russia) were traded on the LSE Main market as of 1 November 2015. Of these 50 companies, 32 were cross-listed on the Moscow Exchange. In the US, four Russian companies were listed on the NASDAQ and three on the NYSE. Two of the NYSE-listed companies and two of the NASDAQ-listed companies had a domestic cross-listing.

Market capitalisation

To calculate market capitalisation, we used data from Bloomberg, averaging the value of market capitalisation over twelve weeks (six weeks before, and six after 1 November 2015). Where valuations in various markets differed (e.g. between local shares and depositary receipts), we used the highest available valuation for the company. We could not find the above-mentioned information for Rosgosstrakh on Bloomberg, so we collected it from Yahoo Finance instead.

To define categories of market capitalisation we used the UK FTSE benchmark converted to USD and rounded to the next 0.5 billion. The thresholds are as follows:

Large cap: >USD 3.5 billion
Mid cap: Between USD 500 million and USD 3.5 billion
Small cap: <USD 500 million

Of the 120 companies in our survey, 29 fell into the large cap category and 39 companies were considered mid cap. The remaining 52 companies were considered small cap.

Industry breakdown

Figure 1 presents the industry breakdown of our sample. Interestingly, Power is the most populated category, accounting for 22% the sample. This is followed by O&G (Oil and Gas) with 10%. Mining, Metals and Banking each make up 8% of companies in the sample. However, in terms of share of aggregate market capitalisation, O&G dominates with 42%, while Banking moves up to second place with 13%.

Figure 1: Industry breakdown

Industry	Sub-industry	# of companies	% of companies	% of market capitalisation
Consumer Business and Transportation	Agribusiness, Food Processing, Beverage	4	3%	0.5%
	Aviation and Transportation Services	6	5%	1%
	Retail, Wholesale and Distribution	7	6%	8%
Energy and Resources	Mining	9	8%	11%
	O&G	12	10%	42%
	Power	26	22%	3%
Financial Services	Banking	9	8%	13%
	Insurance	1	1%	1%
	Investment Management	1	1%	0.01%
Life Sciences	Pharmaceuticals	3	3%	0.3%
	Health Care Providers	1	1%	0.1%
Manufacturing	Automotive	3	3%	0.2%
	Chemicals	2	2%	3%
	Industrial Products	3	3%	0.4%
	Metals	10	8%	6%
Real Estate	Construction Companies	1	1%	0.1%
	Developers	4	3%	1%
	Real Estate Investment Funds	4	3%	1%
Services	Business & Consumer Services	2	2%	0.03%
Technology, Media and Telecommunications	Media	6	5%	2%
	Technology	1	1%	1%
	Telecommunications	5	4%	7%

Ownership

Ownership concentration

The average size of the largest block holding in our sample is 57.6% (Figure 2). This is higher than observed in our previous survey (49.8%), and only about half of the observed difference is a result of changes in methodology, as detailed below. The level of ownership concentration at foreign-listed companies is only marginally lower; the average size of the single largest UK-listed block holding is 54%, and that of the single largest US-listed block holding is 51%.

Figure 2: Ownership concentration

	All (120)	LSE (50)	NYSE/ NASDAQ (7)
Average of single largest block holdings, % of ordinary shares	57.6%	54%	51%
Average free float, % of ordinary shares	25%	29%	28%

Free float

Net of methodology changes, the average size of free float has remained unchanged since 2012 and stands at 25% for the entire sample, 29% for the UK-listed companies, and 28% for the US-listed group. In value-weighted terms, these figures are 32%, 34% and 26% of the respective aggregate capitalisations. In line with the guidance provided in the new Russian Corporate Governance Code, when estimating the size of free float, we accounted for all shareholdings individually not exceeding 5%, except for stakes held by company insiders, the government, as well as quasi-treasury shares.

In our 2012 survey, we reported an average free float of 28%; however, the difference from our 2015 figure of 25% is solely due to changes in methodology. These include changes to the sample and the more stringent approach to categorising free float that we applied in our 2015 survey in line with the new Russian Corporate Governance Code.

Ownership breakdown

In our sample, 95% of the companies, which corresponds to 85% of the aggregate market capitalisation, had at least one block holding exceeding 25% (Figure 3). This is broadly similar to the figures presented in both the 2012 Deloitte survey and the 2010 Transparency & Disclosure survey by Standard & Poor's[5], which covered the 90 largest public Russian companies.

In our sample, 73% of the companies had a majority shareholder owning over 50% of the company, and the market capitalisation of these majority stakes corresponded to 38% of the total market capitalisation. Only four companies (3%) from our sample had two or more block holders each holding between 25% and 50%. These companies accounted for 5% of the aggregate market capitalisation, and the respective block holdings for 3%. Only six companies reported (or were described by the media as having) a moderate ownership concentration, with the largest stake being below 25%. These included Global Trans, Lukoil, Novatek, Petropavlovsk, Polymetal International, and Seligdar.

Government ownership

Thirty-four companies, representing 28% of our sample, were directly or indirectly controlled by the government, yet their share in the aggregate market capitalisation was substantially higher at 41%. This is largely because the government controls the largest issuers, such as Gazprom, Rosneft, Sberbank and VTB, while privately owned companies are smaller on average. The average beneficial stake of the government in these companies was 70%, compared to 63% in 2012.

Thirteen out of the 34 government-controlled companies in our sample were cross-listed in the UK, and none of them had a US listing. Twenty-one only had a domestic listing. The government was also a significant non-controlling investor, with stakes of between 25% and 50% in seven companies, which accounted for about 4% of the aggregate market capitalisation of the sample. Overall, government-related entities (including those where the government held significant non-controlling blocks) represented 52% of the aggregate market capitalisation of the listed companies in our sample.

The total number of government-controlled companies has decreased as compared to our 2012 survey, from 39 to 34. This is explained in that over the period of 2012-2015, some smaller government-controlled companies moved to lower listing levels or delisted completely. We have accounted for six examples

[5] Standard & Poor's "Transparency and Disclosure by Russian Companies 2010: Moderate Improvement in Transparency Led by Power Utilities", Moscow: Standard & Poor's, 2010.

Figure 3: Ownership: breakdown by type

Number of companies in the sample	**2010**	**2012**	**2015**
Total	N/A	131	120
widely-held company with largest stake <25%	N/A	11	6
with at least one block holder (>25%)	N/A	120	114
majority-owned (>50%)	N/A	79	87
two or more blocks between 25% and 50%	N/A	11	4
with controlling stakes (>50%) directly or indirectly owned by the government	N/A	39	34
with large (>25%) private stakes	N/A	79	80
with private majority stakes	N/A	39	53
With a significant, non-controlling government stake		6	7
Total number of government-related companies (majority + non-majority)			43
Percentage of companies in the sample	2010*	2012	2015
widely-held company with largest stake <25%	13%	8%	5%
with at least one block holder (>25%)	87%	92%	95%
majority-owned (>50%)	60%	60%	73%
two or more blocks between 25% and 50%	N/A	8%	3%
with controlling stakes (>50%) directly or indirectly owned by the government	33%	30%	28%
with large (>25%) private stakes	51%	60%	67%
with private majority stakes	27%	30%	44%
with a significant, non-controlling government stake	N/A	4%	6%
Total percentage of government-related companies (majority + non-majority)	N/A		36%
Companies' share of aggregate market capitalisation, %	2010*	2012	2015
widely-held company with largest stake <25%	13%	11%	15%
with at least one block holder (>25%)	87%	85%	85%
majority-owned (>50%)	64%	60%	60%
two or more blocks between 25% and 50%	N/A	8%	5%
with controlling stakes (>50%) directly or indirectly owned by the government	50%	46%	41%
with large (>25%) private stakes	35%	38%	41%
with private majority stakes	14%	14%	19%
with a significant, non-controlling government stake	-	3%	4%
Total percentage of government-related companies (majority + non-majority)	-	49%	52%
Stakes' share of aggregate market capitalisation, %	2010*	2012	2015
widely-held company with largest stake <25%	-	-	-
with at least one block holder (>25%)	52%	46%	50%
majority-owned (>50%)	43%	38%	38%
two or more blocks between 25% and 50%	N/A	5%	3%
with controlling stakes (>50%) directly or indirectly owned by the government	33%	28%	26%
with large (>25%) private stakes	21%	18%	24%
with private majority stakes	10%	9%	13%
With a significant, non-controlling government stake	-	-	2%
Total percentage of government-related companies (majority + non-majority)	-	-	28%

* Results of Standard & Poor's "Transparency and Disclosure by Russian Companies 2010" report.

where this is the case: TGK-11, Yakutskenergo, Gasprom Neftechim Salavat, OGK-1, OGK-3 and MRSK Severo-Kavkaza. In addition, three new government-controlled companies have joined the sample, and at two companies the government stake has fallen below 50%. The overall share of government-controlled companies in the aggregate market capitalisation has also decreased. For the government-controlled companies present in both samples (2012 and 2015), the aggregate market capitalisation has fallen by 47% in the period between 2012 and 2015 in USD terms, while the decrease in the aggregate market capitalisation of our sample over the same period was 34% (excluding the AIM segment). Apparently, government-controlled companies in our sample have experienced a considerably stronger decline in stock prices than the rest of the market.

Quasi-treasury shares

An interesting topic in Russia is the prevalence of quasi-treasury shares (i.e. a company's shares held by its own subsidiary), which retain their voting rights under Russian law. In this survey, we accounted for quasi-treasury shares as a separate ownership category. Almost one-quarter of companies in the sample had quasi-treasury shares, which on average represented 7% of the market capitalisation of the company. It is worth noting that there was one outlier, Uralkali, which had quasi-treasury shares accounting for 40% of the outstanding shares. In this case, we accounted for the quasi-treasury shares as a block holding because the stake was large enough to influence the ownership structure of the company and hence voting outcomes.

Figure 4: Quasi-treasury shares

	All (120)	LSE (50)	NYSE/NASDAQ (7)	Moscow Exchange (99)
Number of companies with quasi-treasury shares	28	16	1	24
Percentage of companies with quasi-treasury shares	23%	32%	14%	24%
Average proportion of quasi-treasury shares (where present)	7%	8%	4%	8%
Median share of quasi-treasury (for those that have them)	4%	2%	4%	4%

Board composition

The size of boards in public Russian companies averages 9.6 members, below the 2013 European average of 12.1[6]. However, within Europe, country averages vary considerably, from 7.5 (Finland) to 17 (Germany), according to the same survey. We note that in Germany, companies are required to include employee representatives on boards, which contributes to the large average size of boards. The largest board in our sample had 18 members, while the smallest board had four.

[6] Heidrick & Struggles "Towards Dynamic Governance 2014 – European Corporate Governance Report", 2013

Figure 5: Board composition

	All (120)	LSE (50)	NYSE/NASDAQ (7)	Moscow Exchange (99)
Inside directors	73%	68%	66%	74%
Shareholder representatives	42%	33%	36%	45%
Management	21%	25%	13%	20%
Outside directors	27%	32%	34%	26%

Inside & outside directors

The independence of any given director is difficult to ascertain, given that a director's biography is not a comprehensive source of information. We used only publicly available information in our survey, which limited our ability to account for certain less obvious links between directors and companies or their shareholders. We therefore refrain from making any judgment as to the independence of directors or boards in our survey. Instead, we categorised directors as "inside" or "outside", defined as follows:

Insiders in our survey are directors that met one or more of the "Association Criteria" as set out in the new Russian Corporate Governance Code. This includes:

- Shareholders owning stakes of more than 5%
- Executives/employees of such a shareholder or its affiliates, or family members of such shareholders
- Current or former employees of the issuer (unless their employment ended more than three years before our survey took place)
- Government officials or directors associated with the government, as defined by the Code (this includes individuals working at state academic institutions in a management function and ex-officials who left office less than one year ago)
- Any director that has served on the same board for longer than seven years
- Anybody working as a service-provider to the company or for one of its competitors

We treated anybody who did not fall into one of the above categories as an outside director.

Our criteria for categorising directors as outsiders, outlined above, are not identical to those used in our 2012 survey. First, we introduced a threshold for board tenure among our criteria, as the Code requires. Second, we also considered directors that were associated with shareholders (or their affiliates) holding more than 5% of shares to be insiders. This encompasses more individuals than the 2012 survey, which set the threshold at 10%. This change reflects the new guidelines in the 2014 Russian Corporate Governance Code.

The average composition of a board for the entire sample (government-controlled and private companies) is presented in the following Figures.

Figure 6: Board of directors: all companies

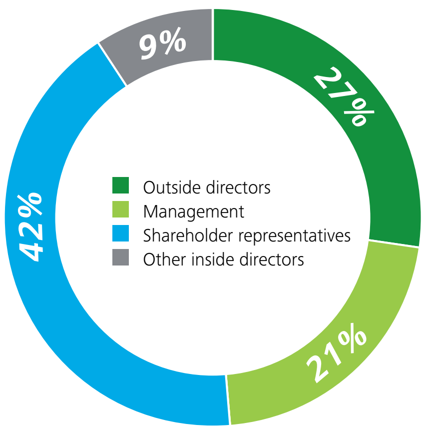


Figure 7: Board of directors: state-owned companies

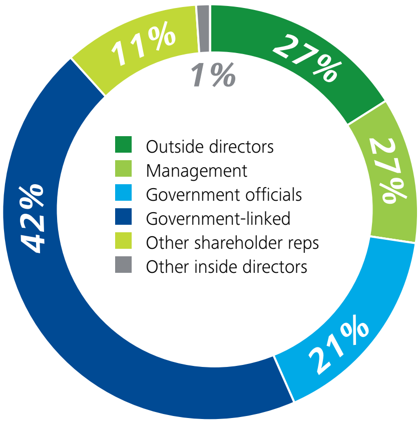
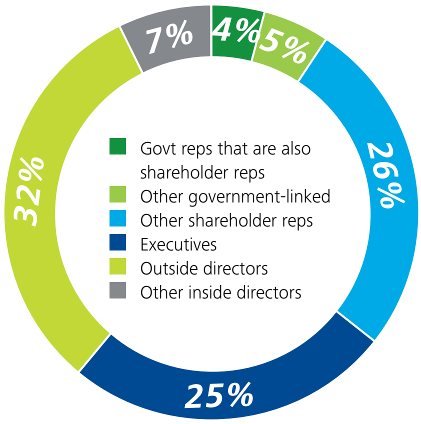


Figure 8: Board of directors: privately owned companies



Outside directors accounted for 27% of board seats in our sample. Broken down by market capitalisation, the average share of outside directors was 32% for large cap, 29% for mid cap and 23% for small cap firms in our sample. According to Spencer Stuart, in 2014-2015, the average share of outside directors was 43.3% for Belgium (among 53 companies)[7], 60% for Germany (among 66 companies)[8], 60.5% for the UK (150 companies)[9] and 62% for Sweden (50 companies)[10].

To study the dynamics in board composition from the year 2012, we performed additional analyses to separate the methodology effects from the actual trends in the marketplace. We reassessed the board compositions of a sub-sample of 35 companies using the 2012 methodology. The difference in the average share of outside directors compared to the 2015 methodology was five percentage points. In addition, we adjusted the 2012 sample to exclude companies listed on the LSE AIM. This resulted in a further reduction in the average share of outside directors by one percentage point. Hence, we estimate that the overall downward effect of the change in methodology and sampling on the average figure to be six percentage points. Adjusting the 2015 number by this amount, we arrive at 33%, the same figure that was recorded in 2012. We therefore conclude that the average share of outside directors on Russian boards has largely remained unchanged.

Explanations for this stagnation might include a relaxation in government policy that led to some government officials being appointed to company boards in 2014/2015. In the 2012 survey, government-affiliated directors occupied 60% of board seats in government-controlled companies, of which 10% were civil servants. In 2015, this number increased to 61%, of which 16% were civil servants.

We found that about 88% of the analysed companies had at least one outside director on their boards. In about 41% of public Russian companies, outside directors constitute one-third of the board as the new Russian Corporate Governance Code recommends, and this proportion tends to be higher at companies with foreign listings (see Figure 9).

[7] Spencer Stuart “2015 Belgium Board Index”, Spencer Stuart, October 2015
[8] Spencer Stuart “Der Spencer Stuart Board Index Deutschland 2014”, Spencer Stuart, December 2014
[9] Spencer Stuart “2015 UK Board Index”, Spencer Stuart, November 2015
[10] Spencer Stuart, “2015 Nordic Board Index”, Spencer Stuart, January 2016

Figure 9: Outside board members

	All (120)	LSE (50)	NYSE/NASDAQ (7)	Moscow Exchange (99)
Percentage of companies with at least one outside director	88%	94%	100%	86%
Percentage of companies with proportion of outside directors ≥ 33%	41%	48%	71%	38%

Figure 10: Boards with majorities of outside directors

	All (120)	LSE (50)	NYSE/NASDAQ (7)	Moscow Exchange (99)
Number of companies with a majority of outside directors	9	7	1	5
Percentage of companies with a majority of outside directors	8%	14%	14%	5%

The number of companies where outside directors constitute a majority dramatically dropped to nine from the 34 reported in our 2012 survey. We estimate changes in methodology to have accounted for ten companies: four due to the exclusion of AIM companies, and six due to the more stringent independence/outsider criteria applied in the present survey. Seven companies that were formerly accounted for as having outside majorities have left the sample due to mergers or delistings/moving to lower tiers. At four companies, director tenure recently exceeded the seven-year limit stipulated by the Russian Code, and at eight companies, there was a deterioration in the ratio of outside-to-inside directors unrelated to length of board service. Finally, four companies now have outside board majorities that previously did not.

Executives

The average share of executive directors in the sample is 21%, similar to the European average of 20% determined by Heidrick & Struggles' 2013 study.[11] The proportion of companies where executive directors hold more than 25% of the seats is 30%, down from 37% in 2012. Meanwhile, 12% of companies do not have any executive directors on the board (Figure 11), compared to 15% in 2012. The share of executive directors on boards of government-controlled companies is low, at an average of 12%, but still up 2 percentage points from 2012 (10%).

Foreign directors

Foreign directors account for 22% of board seats in our sample on average, compared to 24% in 2012, and at least one foreign director is present on 61% of all boards surveyed (Figure 12), compared to 60% in 2012. The European average for the share of foreign directors on a board is 30% as reported by Heidrick & Struggles in 2013.[12]

Government-controlled companies are considerably less likely to appoint foreign directors than private companies, with 30% (38% in 2012) of government-controlled companies having appointed foreign directors compared to 72% (70% in 2012) of private companies.

[11] Heidrick & Struggles "Towards Dynamic Governance 2014 – European Corporate Governance Report", 2013
[12] Ibid.

Figure 11: Executive directors on Russian boards

	All (120)	LSE (50)	NYSE/NASDAQ (7)	Moscow Exchange (99)
Percentage of companies without executive directors	12%	8%	29%	11%
Percentage of companies with share of executive directors >25%	30%	38%	14%	29%

Figure 12: Foreign board members

	All (120)	LSE (50)	NYSE/NASDAQ (7)	Moscow Exchange (99)
Percentage of companies with foreigners on the board	61%	76%	100%	54%
Government-controlled	30%	38%	-	30%
Privately owned	72%	89%	100%	65%
Average percentage of foreign directors	22%	30%	45%	17%

Board structures

Our survey covers the committee structures as of 3Q2015. In our sample, 95% of the companies have board-level audit committees, down from 98% in our 2012 survey. This is nevertheless close to the European average of 96% shown in the 2013 survey by Heidrick & Struggles.[13]

We found that 64% of companies had one committee for remuneration and nomination, 18% of companies had a remuneration committee and 13% of companies had a nomination committee. Strategy committees are present in 53% of companies (43% in 2012). Corporate governance, risk, and ethics committees are considerably less widespread; 9% of companies reported having a risk committee, 8% a corporate governance committee and 3% an ethics or ethics and corporate governance committee.

According to the 2013 Heidrick & Struggles survey[14], 96% of European companies had an audit committee, 89% had a remuneration committee and 73% had a nomination committee. Within Europe, the figures varied. In the UK, 100% of companies had audit, remuneration and nomination committees, while in Poland, 85% of companies had audit committees, 55% had remuneration committees and only 15% had nomination committees.

In the Spencer Stuart 2015 US Board Index[15], 100% of companies had audit and compensation/HR committees, and 99% had nomination/governance committees. Meanwhile, 12% had risk committees and 3% had strategy and planning committees.

[13] Ibid.
[14] Ibid.
[15] Spencer Stuart "U.S. Board Index 2015", Spencer Stuart, November 2015

Figure 13: Board committees

	All (120)	LSE (50)	NYSE/NASDAQ (7)	Moscow Exchange (99)
Audit committee	95%	96%	100%	95%
Remuneration & nomination committee	64%	64%	43%	73%
Remunerations committee	18%	24%	57%	9%
Separate nomination committee	13%	20%	43%	5%
Strategy committee	53%	48%	71%	60%
Risk committee	9%	6%	14%	10%
Ethics committee OR ethics/CG committee	3%	6%	0%	4%
Separate corporate governance committee	8%	16%	0%	7%

Audit committees

Both the existence of an audit committee and its composition influence the corporate governance structure of a company. According to the new Russian Corporate Governance Code, the audit committee should be comprised entirely of independent directors.

Of the 111 companies that had board-level committees and reported their compositions, 23% had audit committees consisting exclusively of outside directors. The percentage was higher for foreign-listed companies: 31% for UK-listed companies (36% in 2012) and 60% for US-listed companies. The latter figure is unexpected since US law requires that audit committees consist exclusively of outside directors. Two of the US-listed companies in our sample each had one audit committee member who was categorised as an insider. We believe this to be the result of the Russian director independence criteria being stricter, in some respects, than the applicable US criteria (e.g. the board tenure cap of seven years under the Russian Code).
Of the audit committees for which composition was disclosed, 47% enjoyed outside majorities, while 19% of the disclosed audit committees had no outside directors among their members. On average, 51% of audit committee members were outsiders.

Figure 14: Audit committee composition
(for companies that disclose composition, representing a smaller sample)

	All (120)	LSE (50)	NYSE/NASDAQ (7)	Moscow Exchange (99)
Number of companies that have audit committees + disclose composition	111	48	5	93
Percentage of companies with outside audit committees (exclusively outside directors)	23%	31%	60%	22%
Percentage of companies with a majority of outside directors in the audit committee (including fully outside committees)	47%	63%	100%	43%
Percentage of companies with an inde-pendent chairman of the audit committee (including fully outside committees)	64%	81%	80%	60%
Percentage of companies with no outside directors in the audit committee	19%	13%	0%	20%

Remuneration and nomination committees

Overall, we found that the share of outside directors was lower in remuneration and nomination committees compared to audit committees.

Figure 15: Remuneration and Nomination committee composition
(for companies that disclose composition, representing a smaller sample)

	All (120)	LSE (50)	NYSE/NASDAQ (7)	Moscow Exchange (99)
Number of companies that have R or R&N committees + disclose composition	97	46	4	80
Percentage of companies with outside R&N committees (exclusively outside directors)	20%	28%	0%	20%
Percentage of companies with a majority of outside directors in the R&N committee (including fully outside committees)	37%	54%	0%	39%
Percentage of companies with an inde-pendent chairman of the R&N committee (including fully outside committees)	57%	70%	25%	58%
Percentage of companies with no outside directors in the R&N committee	25%	20%	25%	25%

Board chairs and senior independent directors (SIDs)

The new Russian Corporate Governance Code recommends that the chair of the board be independent. Should this not be possible, the board should designate a senior independent director among the company's outside directors. Overall, we found 27% of companies in our sample to be in compliance with this criterion of the Code, and only 23% of companies listed on Moscow Exchange to whom this Code applies directly (save for one company listed through Russian depository receipts).

Only 13% of boards had an independent chairperson. This number was even lower for UK-listed companies (10%), despite the fact that the UK Code presents a more stringent requirement in this respect. Of the US-listed group, only one company had an independent board chairperson. A slightly higher percentage of companies in the sample had designated a senior independent director (18%). This figure was notably higher among the UK-listed companies (34%), but none were reported by the US-listed companies in our sample.

Figure 16: Board chairs and SIDs

	All (120)	LSE (50)[16]	NYSE/NASDAQ (7)	Moscow Exchange (99)
Number of companies with SIDs	21	17	0	13
Percentage of companies with SIDs	18%	34%	0%	13%
Number of companies with independent chairmen	15	5	1	13
Percentage of companies with independent chairmen	13%	10%	14%	13%
Number of companies with both SIDs and independent chairmen	4	2	0	3
Number of companies compliant with Russian Code as regards SID + IC	32	20	1	23
Percentage of companies compliant with Russian Code as regards SID + IC	27%	40%	14%	23%

[16] The breakdown by exchanges in the figures includes cross-listed companies under each column. Companies with cross-listings are therefore accounted for within both relevant categories.

[17] Heidrick & Struggles "Towards Dynamic Governance 2014 – European Corporate Governance Report", 2013

Board evaluations

A new metric that we introduced in our 2015 survey is whether boards undertook evaluations within the last year, and whether these evaluations were conducted by an external entity (as recommended by the new Code). We found that about a fifth of the companies in our sample had undertaken an evaluation in the year preceding the survey, and only seven companies had invited external evaluations in the same period. This stands in contrast to the European average. In 2013, 78% of European boards had undergone an evaluation within the previous two years, and 21% of boards used external facilitators or consultants for the evaluations, according to Heidrick & Struggles[17].

Figure 17: Board evaluation

		All (120)		LSE (50)		NYSE/NASDAQ (7)		Moscow Exchange (99)	
		# of companies	% of companies	# of companies	% of companies	# of companies	% of companies	# of companies	% of companies
Companies that conducted board evaluation		26	22%	14	28%	0	0%	20	20%
of which:	Self-assessment	19	16%	10	20%	0	0%	15	15%
	External evaluation	7	6%	4	8%	0	0%	5	5%
No evaluation		63	53%	23	46%	6	86%	51	52%
No information available		31	26%	13	26%	1	14%	28	28%

Annex: Methodology

Board composition

We classified directors into the following categories:

- Executive directors
- Controlling shareholders or directors linked to controlling shareholders
- Non-controlling shareholders or directors linked to non-controlling shareholders
- Civil servants
- Government-affiliated directors
- Other affiliated directors
- Outside directors

Once we accounted for executive directors, we no longer counted them in any of the other categories, which means that the overall proportion of shareholder representatives and government representatives is likely to be higher in reality. We took this approach because we believe that an association with executive roles is more significant from a governance perspective than any other potential impediment to independence.

Some government-controlled companies were owned by various types of government entities, including regional and municipal governments, other government-controlled companies and other entities ultimately controlled by the government. We counted all government stakes as one, and then treated any director affiliated with the government (regardless of whether they were linked to these specific entities or not) as a representative of the government-owned block as well as a government-affiliated director.

If a director was employed by a different company that is controlled by one of the significant shareholders, they were deemed to be linked to said shareholder.

Companies themselves often indicate which directors they consider to be outside, yet we did not rely on these statements in our categorisations. In some cases, we could not clearly establish why certain directors were identified by companies as not being outside, as we could not observe any formal grounds for such a classification. In these cases, we categorised such directors as insiders assuming that the company had information on such directors' affiliations that had not appeared in the public domain information that we reviewed. We consider this to be a reasonable approach from a practical standpoint since there is no reason for companies to declare fewer outside directors than they actually have.

Foreign directors

We defined "foreign director" as anybody who is not a CIS national and whose career is mainly based outside of CIS countries. We chose this definition to avoid potentially misleading categorisations based on nationality alone: some Russian businessmen carry foreign passports, for example. For the purposes of this survey, we also chose not to account for individuals from other CIS countries as "foreign", since we believe the business culture and governance standards across CIS countries to be broadly comparable.

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