РОССИЙСКИЙ ИНСТИТУТ ДИРЕКТОРОВ

CORPORATE GOVERNANCE PRACTICES IN RUSSIA:

2004 – 2009 Comparative Study.

NEW TRENDS IN 2009

Contributors:

РЭШ Российская экономическая школа

With support of:

ММВБ MICEX

KPMG

CIPE

Moscow - 2010

Russian Institute of Directors (RID) is a leading Russian information-sharing, research, expert, consulting and educational center on the problems of corporate governance.

RID members currently include such largest Russian companies as AFK Sistema, Wimm-Bill-Dann, GAZ, KamAZ, Moi Bank, Norilsk Nickel, Nizhnekamskneftekhim, NIKOKHIM, United Machinery Plants, Svyazinvest, Severstal, Setevaya Kompania, Surgutneftegaz, Power Machines, TAIF, Tatneft, FC Uralsib, Uralsvyazinform and Central Telecom.

Russian Institute of Directors cooperates with the leading Russian and international organizations including the International Finance Corporation (IFC), World Bank, the UN Conference for Trade and Development (UNCTAD), Organization of Economic Cooperation and Development (OECD), International Corporate Governance Network (ICGN), European Institute of Corporate Governance, U. S. National Association of Corporate Directors (NACD), UK Institute of Directors (IOD), UK Institute of Chartered Secretaries and Administrators (ICSA) and Center for International Private Enterprise (CIPE).

In 2003, RID initiated the National Register of Professional Corporate Directors (National Register). The National Register is administered and maintained by the Board which is elected at the annual Congress of Professional Corporate Directors. RID supports the Board's work and liaises with the National Register members. The National Register of Professional Corporate Directors currently includes about 450 professionals who have experience in the boardrooms and committees of almost 600 Russian companies and banks.

Since 2003, a consortium of the Russian Institute of Directors and Expert RA rating agency has been regularly evaluating corporate governance level and assigning the National Corporate Governance Rating based on this assessment. Twenty Russian companies had a public rating by the fall of 2010.

Since 2001, RID has been training staff for the companies that are leaders in the Russian business. Over 2,000 board members and top and mid-level managers from 52 Russian regions and 1,300 Russian companies took professional training at RID courses.

The Russian Institute of Directors wrote and published "Board of Directors in the Corporate Governance System" and "Corporate Governance in the Corporate Governance System," the first Russian textbooks on corporate governance.

RID issues a monthly "Information and Analytical Newsletter on Corporate Governance" which is distributed to the Russian Government, State Duma, Federation Council, Ministry of Economy, FSFM and leading Russian companies.

The Russian Institute of Directors has been implementing collaborative programs with the Russian regions. These programs seek to integrate the best governance practices in the work of regional companies (RID organizes conferences, seminars, best annual report competitions, etc.). RID's partnership network covers 15 member territories of the Russian Federation.

RID's core activity areas:

- A broad range of corporate governance services
- National corporate governance rating
- Training and skills development on important issues of corporate governance
- Studies in corporate governance
- Information support on corporate governance issues
- Consolidation of the professional community of corporate directors and corporate secretaries.

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New Economic School (RES) is a unique institution of tertiary education, established in 1992.

The mission of the New Economic School is to benefit Russia's private and public sectors through excellence in economics education and research.
NES is a real research university. The prominent part of educational process is students' original research projects. The core of NES is its resident faculty of 23 young Russian economists with PhDs in economics and finance from the leading universities, including Harvard, MIT, LBS, Michigan, Wisconsin-Madison. Most of foreign-trained professors came back to Russia for teaching at NES.
NES faculty truly represents Russian economics in the global economics profession via participating in the international conferences and publishing in the leading international economics journals, including *Econometrica, American Economic Review, Quarterly Journal of Economics, Review of Economic Studies, Journal of Economic Perspectives, Journal of Economic Literature, Journal of European Economic Association, Journal of Finance, Journal of Business, American Political Science Review*. In terms of the quality of research, NES is ranked the best economics institution in the former communist countries and is a top 100 economics institution in Europe. NES faculty carries out academic and applied research on major issues of the Russian economy at the Center for Economic and Financial Research (CEFIR) at NES. CEFIR at NES is the 14th in the world research ranking of the economic think tanks.
High quality of education is ensured by the members of the NES International Advisory Board (IAB). IAB consists of international leading economists and it has been making all major academic decisions at NES. It is also responsible for all academic appointments and promotions.
Most of the NES alumni are working in the Russian and international companies and the Russian Government authorities. Over 250 NES graduates went to continue their studies in the top PhD programs (such as Harvard, MIT, Chicago, Stanford, Yale, Northwestern, Columbia, NYU, Penn State, LBS, Toulouse and others). More than 60 PhDs work as economics faculty in Western universities, including MIT, Princeton, Stanford, Yale, Berkeley, Columbia, UPenn, NYU, LSE, LBS and others.

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About This Survey

This survey of corporate governance practices in the Russian companies is the seventh project in a series of studies which the Russian Institute of Directors (RID) has been conducting annually since 2003 года.

	Studies by RID
2010	Corporate Governance Practices in Russia: 2004 – 2009 Comparative Study. New Trends in 2009.
2009	Corporate Governance Practices in Russia: 2004 – 2008 Comparative Study.
2008	Corporate Governance Practices in Russia: 2003 – 2007 Comparative Study.
2007	Corporate Governance Practices in Russia: 2003 – 2006 Comparative Study.
2006	Corporate Governance Practices in Russia: 2003 – 2005 Comparative Study.
2005	Annual Survey of Corporate Governance Practices in Russia: 2004.
2004	Corporate Governance Practices in the Russian Joint-Stock Companies: Findings of a 2003 Survey by RID
	All surveys are available on RID's website at http://rid.ru/rid/research/

Goals of Survey:

1. To measure the average level of corporate governance among Russian companies included in the survey, and make a comparative analysis of evolution of the main components of corporate governance practices in these companies.
2. To identify the main aspects of corporate governance practices that demonstrated the best improvements.
3. To identify the most problematic aspects of corporate governance practices that require a stronger focus on the part of shareholders, management, prospective investors, the State, and other stakeholders.
4. To compare the corporate governance levels in the sample and in the companies that fall in different groups within the sample (government-related companies and listed companies).
5. To identify and give arguments for the new trends – based on a review of information about corporate governance developments over the few years.

Corporate governance practices at the end of 2009 in 150 leading Russian companies were the **object of analysis** in this survey. These companies are among the largest and most dynamic Russian corporates and take steps to improve their investment attractiveness.

In order to make the findings of different years more reliable, informed and comparable, we try to avoid making major changes in the sample over the covered periods. In particular, 136 out of the 150 companies in the 2009 sample had been covered by the survey a year before. The new survey does not include companies that became 100%-owned subsidiaries of larger holding groups as a result of asset consolidation. Some companies were removed from the sample because they ceased to disclose substantive information which is required for evaluation of corporate governance practices. One company was removed because it went bankrupt during the crisis.

The 150 companies of this survey were put into two subgroups: those that are put on the quotation lists of MICEX[1], the largest Russian stock exchange (hereinafter "listed companies") and government-related companies[2] ("GREs," or "state-owned companies").

	2008 survey	2009 survey
Number of companies in the sample	**150**	**150**
MICEX-listed companies	**57**	**67**
Government-related companies	**21**	**29**

Most new companies that were included in the survey are owned by the State. This subgroup was established in the 2008 survey and expanded in the 2009 survey because there has been a perceived trend toward strengthened state interventionism in the key sectors of the Russian economy, including through acquisition of assets from private companies by the state-owned ones.

The State began expanding its presence in the key sectors of the Russian economy even before the 2008 crisis – since late 2004, and has been proactively increasing it during the past three years. According to different estimates, the presence of the State in the Russian economy (direct as well as indirect) exceeds 50%. This presence is in two main forms: (i) government-related companies buy assets from private businesses; and (ii) state corporations are established. Asset acquisition became particularly common when the 2008 crisis began. In order to avoid bankruptcy and receive support from the government, owners of many large privately-owned companies handed control over their businesses to the state-controlled entities or to the government-controlled financial institutions, such as Sberbank or VEB.

Given the substantial increase of assets controlled by the State, there is an objective need to improve their administration including through corporate governance tools.

The Russian government has declared its commitment to implement and develop corporate governance standards in GREs. This makes the study of governance practices in this group of companies very important. In particular, government officials on the boards of joint-stock companies have been partially replaced by external directors since 2008: these include representatives of the State who are not officials ("professional agents" [3]), and independent directors.

[1] At 31.12.2009.

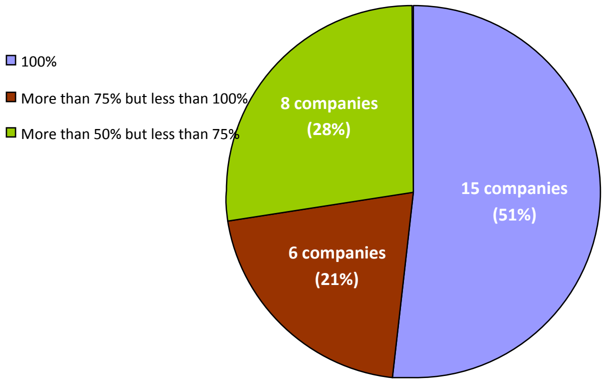
[2] In this survey government-related companies are companies that are directly controlled by the State (the State owns more than 50% of common stock).

[3] Professional agents must vote in accordance with instructions from the Federal Agency for Administration of State Property on certain pre-agreed issues. They can vote in accordance with their own positions on other issues.

Key Characteristics of the "Government-Related Companies" Subgroup:

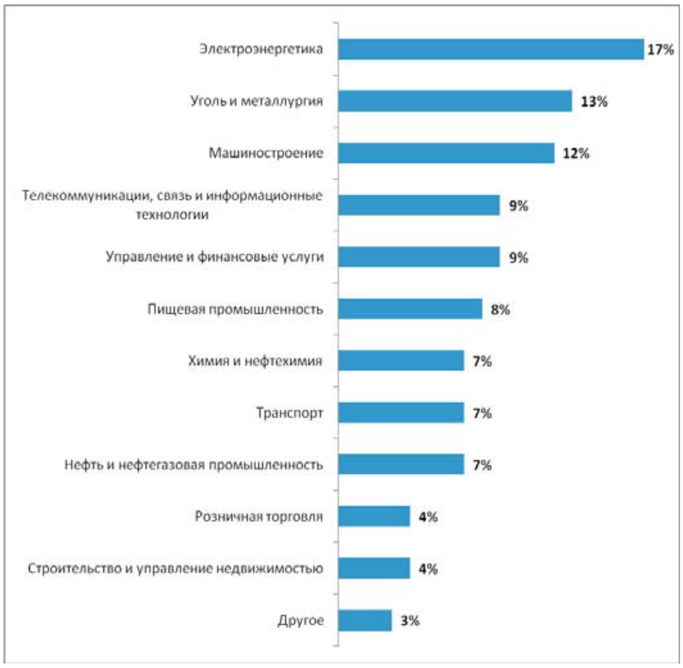
- The sample includes 29 government-related companies (19% of the total number of companies included in the survey).
- Seven out of 29 government-related companies (24%) are listed on MICEX.

- Distribution of government-related companies by the share of common stock owned by the State



The survey includes companies that have different forms of ownership (State-owned, private, mixed ownership) and work in different sectors. This is done for the sample to be representative:

Breakdown by Industry
(% of the total companies in the sample)



The survey **methodology** is based on the assessment of consistency of corporate governance practices in the companies with the criteria underlying the methodology of the National Corporate Governance Score (NCGS) assigned by "RID – Expert RA"[4].

The survey assessed the following components of the corporate governance practices in the Russian companies:

- Implementation of shareholder rights;
- Governance and control bodies;
- Disclosures;

[4] Detailed information about the National Corporate Governance Score is available on the websites of the Russian Institute of Directors (http://www.rid.ru/) and Expert RA rating agency (http://www.raexpert.ru/).

- Corporate social responsibility.

Corporate websites, companies' quarterly reports (QI-Q4 2009), 2009 annual reports, RAS and/or IFRS financial statements for 2009, information agencies' newswires and other publicly available sources were used as **the main sources of information** for the review.

In their analysis, RID experts used assessments that implied only two answers, "Yes" or "No," i.e. the presence or absence of a given aspect of corporate governance practice in the company. Therefore, this survey does not cover either partial compliance with recommendations or the existence of certain governance components.

The main **value** of this research is in the extensive statistical data about the level of corporate governance in Russia, which is confirmed by the following characteristics of the survey:

- The survey analyzes a broad range of aspects of corporate governance practices – about 100 aspects.
- A large sample of the covered Russian companies (150 companies in 2009).
- A long period covered by the analysis – six years, from 2004 to 2009.
- Comparison of statistical data about the level of corporate governance in three groups of companies: 1) for the whole sample; 2) for state-owned companies; 3) for listed companies.

We believe that the findings of surveys which RID made since 2004 provide extensive information about the prevailing corporate governance practices in the group of companies that are pivotal for the Russian economy and attract investor attention, particularly those who make investments through the stock market.

We invite experts from various organizations to analyze and interpret our findings and further discuss the content and direction of processes in the corporate governance practices of the Russian companies.

The Russian Institute of Directors would like to thank ZAO MICEX Stock Exchange, ZAO KPMG and International Center for Private Enterprise for their support with this survey.

RID's survey expert team:

Igor V. Belikov, Vladimir K. Verbitsky, Ekaterina V. Nikitchanova, Konstantin A. Gulyaev. N. G. Likhacheva, I. I. Akhmed and A. A. Bekshokov.

The New Economic School (NES) contributed to the survey in 2010 for the first time.

In this survey, NES analyzed factors that have an impact on the quality of corporate governance.

NES used information about corporate governance practices in Russia, provided by multi-year observations of the Russian Institute of Directors and other organizations that assess the quality of corporate governance in the Russian companies. Guided by this information, NES experts studied and analyzed the impact of such factors as industry, ownership structure and the size of companies. Besides, the survey compares different governance quality measures and describes changes in the quality of corporate governance in 2004-2009.

The analysis and findings contributed by NES are given in the chapter "NES / Review of Factors Influencing the Quality of Corporate Governance."

NES expert group:

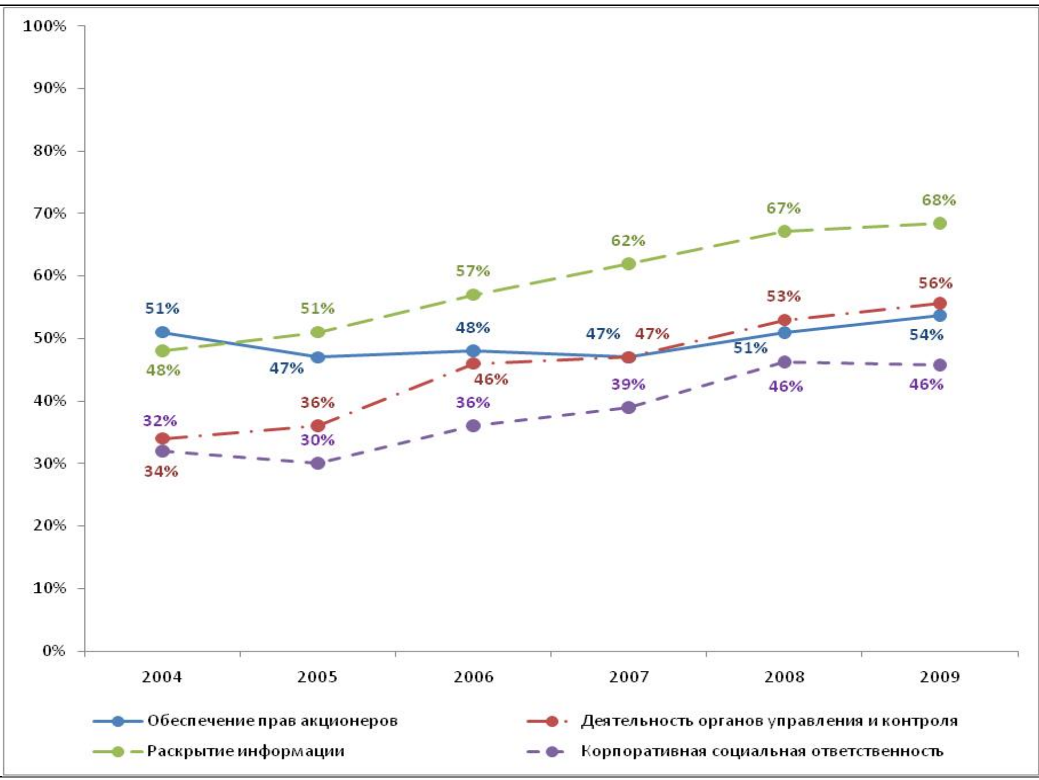
R. S. Enikopolov, S. M. Guriev, G. E. Besstremyannaya and O. I. Rubanov.

Overall Landscape: Positive Dynamics Continues

In general, the trend to raise the overall level of corporate governance practices observed in 2004 to 2008 continued in 2009. But the dynamics of positive changes was different for different components and subgroups of companies (see Chart 1):

- In the "Implementation of Shareholder Rights" component, governance practices in the Russian companies in 2004-2008 developed in a narrow range from 41% to 51%. There was a positive change in this area in 2009: the share of recommendations that the companies complied with has increased by 3 percentage points (p.p.) in the sample as a whole, and reached 54%.
- Sustainable growth was observed in 2004-2008 in the "Governance and Control Bodies" component. This trend continued in 2009: the share of recommendations that the companies complied with has reached 56% for the sample as a whole, which is 3 p.p. above the 2008 level.
- The "Disclosures" component has demonstrated the highest level of development in corporate governance practices relative to other components. The share of recommendations that the companies complied with, on average, has increased by 20 p.p. for the sample as a whole as compared to 2004, and reached 68% in 2009. But the dynamics of changes slowed down markedly over the last year: an increase was 1 p.p. in 2009, while the average annual growth in 2004-2008 was 4.75 p.p.
- In the "Corporate Social Responsibility" component, gradual growth was observed in 2004-2008 but it stopped in 2009. The share of recommendations which the companies complied with in 2009 (on average for the sample as a whole) remained unchanged at 46%. Corporate social responsibility remains the least developed component of all corporate governance practices that are covered by this survey.

Chart 1. Trends in the Development of Corporate Governance Practices, 2004-2009

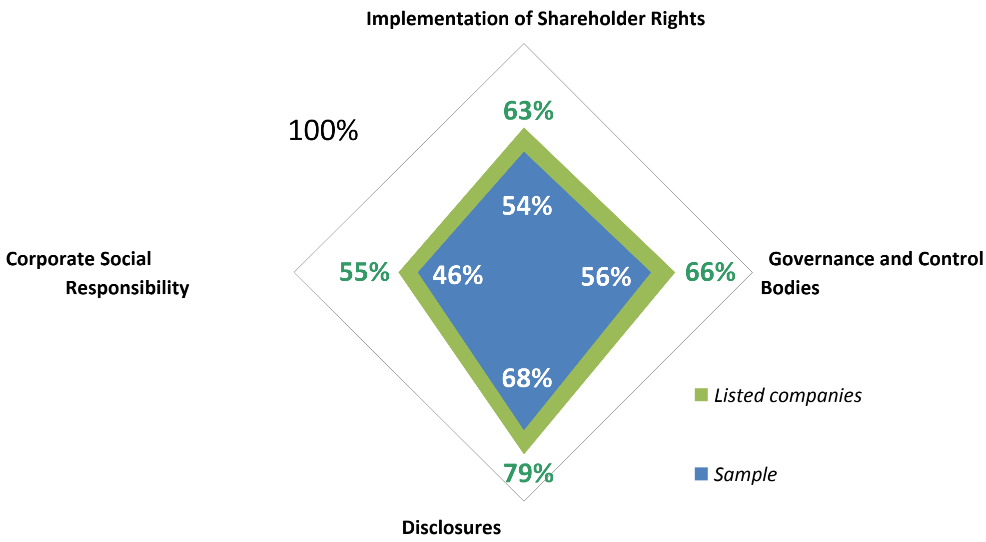


The chart shows the share of governance recommendations for each component that are complied with, on average, by the companies (for the total sample)

Each governance component has aspects that demonstrated positive dynamics and aspects that are at a low level and require major improvements. All aspects of corporate governance practices are analyzed in detail in the chapters below.

An analysis of the survey findings shows that listing on a stock exchange and the need to comply with its corporate governance rules remains the main incentive for the Russian companies to improve their governance practices. It encourages them to implement and use a broader range of the governance principles, standards and best practices. Therefore, listed companies demonstrate a higher level of corporate governance practices than the sample as a whole (see Chart 2).

Chart 2. Level of Corporate Governance Practices in Listed Companies and Total Sample, 2009



The chart shows the share of governance recommendations for each component that are complied with, on average, by the listed companies and by the total sample

The distribution of companies **by the level of compliance with recommendations** of the best corporate governance practices is unequal for different components (see bar charts 1-4).

For example, in the "Implementation of Shareholder Rights" component 36% of companies comply with 50 to 70% of recommendations. The share of companies that complied with more than 70% of recommendations increased markedly in 2009 – by 7 p.p., to 21% from 14%.

In the "Governance and Control Bodies," the share of companies that comply with 50-70% of recommendations is comparable with the share of compliers in the "Implementation of Shareholder Rights" (31%). But the number of companies with a high level of practices (i.e., those that comply with more than 70% of recommendations) has further increased – to 31% in 2009 from 22% a year earlier.

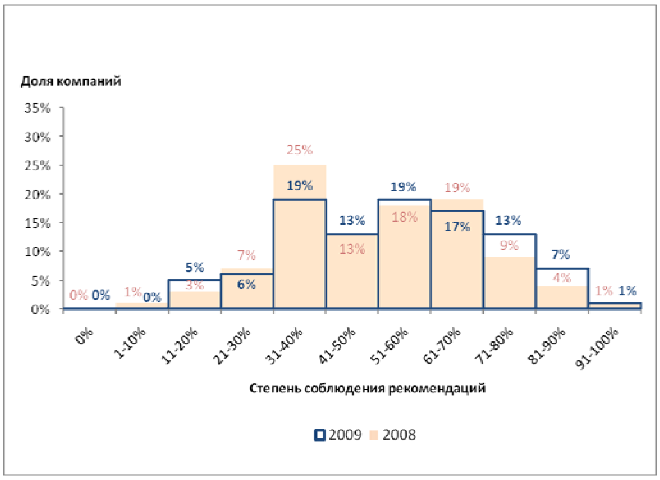
In the Disclosures" component, the distribution of companies is biased toward a higher level of compliance: more than a half of companies (53%) comply with more than 70% of recommendations. Another 35% of companies report different levels of compliance with the disclosure recommendations (50% to 70%).

The least equal distribution of recommendation compliers is observed in the "Corporate Social Responsibility" where 58% of companies demonstrate poor compliance with recommendations (less than 50%), 22% report moderate compliance (50-70%), and 21% of companies have a high level of compliance (over 70%).

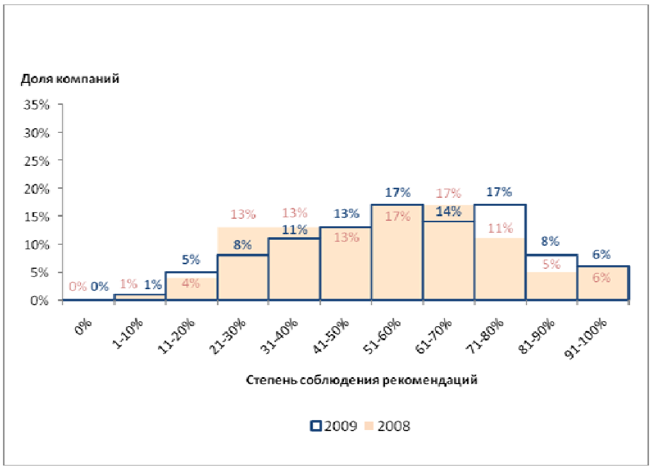
Distribution of Companies by the Level of Compliance with Recommendations about the Best Governance Practices for Different Components, 2008-2009

The compliance level in the bar chart is given as a share (%) of the maximum possible level of compliance with all recommendations for the given component of corporate governance practice.

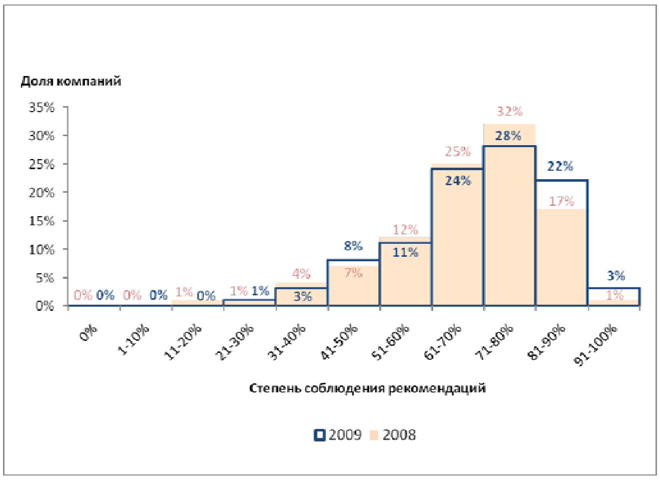
Bar chart 1 **"Implementation of Shareholder Rights" component**



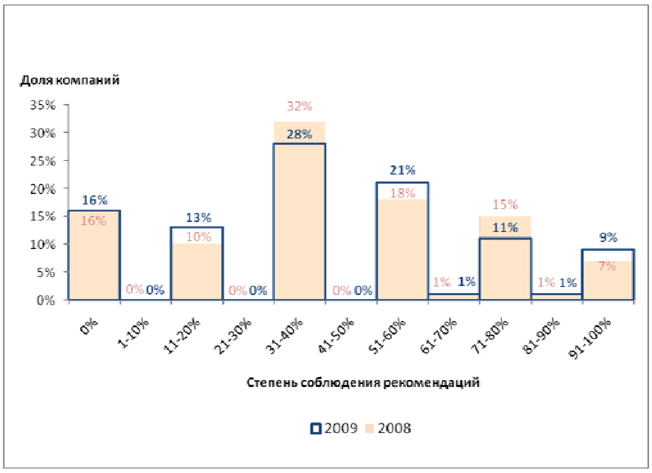
Bar chart 2 **"Governance and Control Bodies" component**



Bar chart 3 **"Disclosures" component**



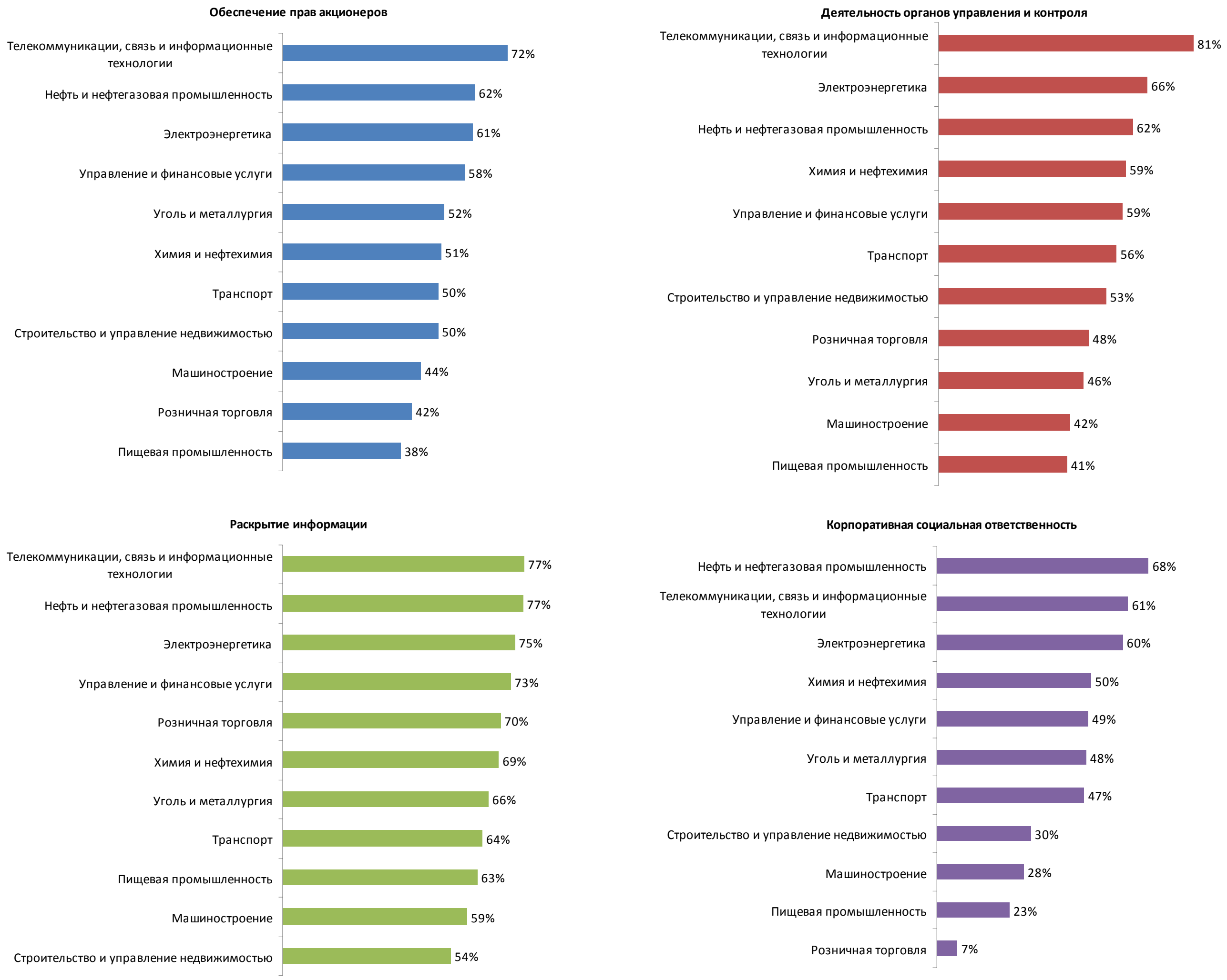
Bar chart 4 **"Corporate Social Responsibility" component**



A review of the survey findings by **sector** shows that the highest level of development in all governance components is demonstrated by companies in three sectors: "Telecommunications and information technologies," "Power engineering" and "Oil and gas" (see Chart 3). The distribution of leadership positions of these sectors changes is different for different components. "Machine engineering," "Food" and "Retail trade" are the least developed sectors in terms of corporate governance.

Chart 3. Industry-Specific Development of Corporate Governance Practices, for the Sample, 2009

The charts show the share of governance-related recommendations for the given component that are complied with (on average) by the companies in each sector, for the total sample.



Nature of Developments: Impact of the Crisis and Insufficient Comprehensiveness

A review of the 2009 developments in the corporate governance practices shows that they generally reflect the trends of the overall economic situation in the financial and economic crisis.

The most typical changes in the governance practices, rather predictable during the crisis, were observed in “Implementation of Shareholder Rights.”

In particular, shareholders strengthened control over safety of their companies’ assets. The share of companies where the board approves transactions with less than 10% of the balance sheet asset value has increased from 38% to 43% in the sample as a whole[5]. Growth was even higher in the group of listed companies – from 51% to 58%. Control over transactions with assets strengthened in the state-owned companies as well but the level of this control proved to be lower: the survey showed a larger share of state-owned companies where the board approves transactions with 10-25% of the balance sheet asset value (from 24% in 2008 to 35% in 2009). At the same time, there were fewer companies where the board approves transactions with less than 10% of the balance sheet asset value (down from 28% in 2008 to 24% in 2009).

[5] Detailed statistics (changes in 2004-2009) for each aspect of corporate governance practices that are described here and further in the survey are given in the Annex.

A difficult economic situation during the crisis resulted in the deterioration of the companies' dividend practices. The share of companies that announced and successfully paid dividend for the past three years in succession reduced from 51% to 38% in 2009 in the total sample. The decline was even larger among state-owned companies (from 81% to 34%)[6].

Not only the number of companies that paid dividend during the crisis has reduced; the terms and conditions of dividend payments deteriorated as well. The share of companies that set a longer dividend payment period (more than 60 days) or paid less than 90% of the announced dividend increased. It went up from 69% to 77% in the sample as a whole (from 65% to 82% among listed companies and from 52% to 69% among state-owned ones).

Several crisis-driven changes happened in 2009 in the work of the companies' governance and control bodies.

The number of the board meetings increased substantially in 2009. The share of companies whose boards meet once every six weeks or more frequently has increased to 73% from 64% in the sample as a whole. The increase is even higher among listed companies – up by 13 p.p., to 81% from 68%. The largest increase of the companies with more frequent boardroom meetings was demonstrated by the subgroup of state-owned companies: 76% as compared to 57% a year earlier.

Mechanisms that lower the exposure to conflicts of interests among members of the board and executive management team were broadly used by the companies. There are more companies whose internal documents require the board members to declare their affiliation. This share increased from 69% to 73% in 2009 in the sample as a whole, from 70% to 79% among listed companies and from 38% to 55% among state-owned companies. Similar changes were observed in the requirements for executives: the increase in 2009 was from 58% to 63% in the total sample and from 63% to 78% among listed companies, while state-owned companies remained at 48%.

As the boardrooms become more active and there is a need to hire professional directors with sound backgrounds, expertise and reputation, the companies have to pay remuneration to the board members despite the crisis. The share of companies that remunerate the board members increased from 79% to 82% in 2009 (sample). The figure reached almost 100% among listed companies (99% as compared to 91% in 2008). State-owned companies are also expanding this practice: the share of remuneration-paying corporates went up from 48% to 55% in 2009.

The need to have a better system of internal control (which is particularly important during the crisis) prompted an increased number of companies to establish an internal audit department in 2009. It is a separate structural unit whose role is to evaluate effectiveness and improve the system of internal control. The share of companies that established such departments increased from 67% to 73% in the sample as a whole and from 84% to 94% among listed companies. The reverse trend was observed among state-owned companies: the share of those that have internal audit departments has reduced, albeit slightly (from 62% to 59%).

As we wrote in the previous chapter, the development of corporate governance practices with respect to disclosures scarcely changed in 2009 and remained at the 2008 level. At the same time there are a few areas where a higher level of disclosures reflects the importance of information during the crisis.

In particular, in 2009 the companies markedly improved public disclosure of the auditors' reports that confirm reliability of the published statements. The share of companies that disclose the auditor's report has increased from 80% to 87% in the total sample, from 84%

[6] Changes in the state-owned companies' governance practices described here and further might be partially explained by a larger sample in this subgroup in this year.

to 93% among listed companies and from 81% to 93% in the subgroup of state-owned companies (the average level of disclosure of RAS statements is above 95%).

In 2009, the companies demonstrated better disclosure of their development strategies. The share of companies that publish their development strategy on corporate websites increased by 5 p.p. in 2009 as compared to a year ago – to 60% in the total sample, and by 9 p.p. among listed companies (from 70% to 79%). State-owned companies did not demonstrate any comparable growth of this indicator over the past year (69% against 67% in 2008).

The level of governance practices remained almost unchanged in corporate social responsibility. Furthermore, the companies cut their social programs, particularly for the communities where they operate, and for counterparties. The share of companies that implement CSR projects went down from 75% to 67% and from 32% to 31%, respectively, in 2009 in the total sample.

The only programs that remained at almost the same level were CSR programs for the company employees and their families. The share of companies that run such projects was kept at the 2008 level in the sample as a whole, and slightly increased among listed companies (to 85% from 82%). Conversely, the share of state-owned companies with CSR programs increased from 62% to 69%.

The practices of approving CSR-related internal documents by the companies (internal documents that state principles, goals and procedures of social policy implementation and codes of corporate ethics) became more common, albeit improvement was modest in this area.

In our view, positive dynamics in the development of corporate governance practices related to implementation of shareholder rights and work of the governance and control bodies, on the one hand, and lack of positive changes in the "Disclosures" and Corporate Social Responsibility" components, on the other hand, can support the following hypothesis. During the crisis, corporate governance as an attribute of a company's attractiveness for external investors is no longer as effective as it used to be. Besides becoming less active, investors in general are even more cautious and mindful of such governance practices as internal control and risk management; actual (instead of formal) strategic management by the board; oversight of the company's management by the board; and substantiation and effectiveness of management incentive programs. In this situation the company's owners and executives gain or strengthen understanding of the role which better corporate governance might play if it seeks to meet internal needs driven by the logic of the company's business, its sector and the entire economy.

At the same time, the findings of the 2009 survey and observations of the previous years show that positive changes in the corporate governance practices are not comprehensive enough. This means that even if a governance practice improves markedly in any given aspect, a closely related other aspect of corporate governance remains at a low level in many cases. This dampens the overall positive effect of corporate governance as a system.

Thus, the board strengthens control over safety of the company's assets. But the practice of compulsory employment of an arms' length appraiser when a company makes transactions with assets in cases other than those required by legislation is not common. The share of companies that follow this practice amounted to 26% in 2009 in the total sample (27% in 2008).

Companies employ leading reputed firms as external auditors, and this practice is rather common (87% in the total sample in 2009). However, although this practice became more common in 2009, the incidence of choosing an external auditor via an open tender is still modest (41% and 51% in 2008 and 2009, respectively, for the sample as a whole). State-owned companies are an exception in this respect: tenders for the position of external auditors in 2009 were held in 97% of companies (76% in 2008). But state-owned companies began employing the leading audit firms less frequently (76% against 86% in 2008).

The disclosure practices (including disclosures via corporate websites) are at a relatively high level. However, the surveyed companies are not sufficiently active in using their corporate websites for informing shareholders about GSM. The share of companies that posted GSM materials on their websites amounted to 32% for the whole sample (31% in 2008), 55% (47%) among listed companies and 28% (29%) among state-owned companies.

The number of companies that approve a separate document regulating their dividend policy has been gradually increasing (41% in 2009 against 35% in 2008 for the total sample) but this increase is not accompanied with improved practices of dividend payment, as was noted above.

The frequency of the board meetings went up, particularly in the past year, but the level of disclosed information about these meetings remains extremely low. In 2009, the share of companies whose website post minutes of the board meetings or statements from these minutes was 19% for the total sample, 27% among listed companies and 17% among state-owned companies.

Another example demonstrates lack of comprehensiveness. The number of companies that establish audit committees has been increasing yet there are no improvements in the quality of staff and process of such committees. The number of companies that established audit committees increased significantly in 2009: from 69 to 77% in the sample, from 95% to 99% among listed companies, and from 57% to 72% in state-owned companies. But the share of companies where executive directors sit on the audit committees is still large: 54% in the total sample in 2009 (54% in 2008), 44% (48%) among listed companies, and 52% (58%) among state-owned companies. Besides, the audit committees met less frequently in 2009. The share of companies where the audit committees meet three or more times a year amounted to 55% (against 63% a year before) in the sample, 56% vs. 65% among listed companies and 45% vs. 50% among state-owned companies.

The situation is very much the same with respect to the personnel and remuneration committees. In 2009, the share of companies that established such committees increased by 10 p.p. (from 55% to 65%) in the total sample, by 10 p.p. (from 75% to 85%) among listed companies and by 21 p.p. (from 48% to 69%) among state-owned companies. At the same time, the share of companies where the personnel committee includes only independent or nonexecutive directors continues to reduce. The figures are 36% in the sample in 2009 (40% in 2008), 51% (52%) among listed companies and 35% (40%) among state-owned ones. The frequency of meetings in 2009 declined even more than in the audit committee: by 12 p.p. to 51% in the total sample, by 14 p.p. to 51% among listed companies, and by 18 p.p. to 32% among state-owned companies.

The number of companies that established an internal audit department has increased during the crisis. But not all these companies make this department report to the audit committee in the board (or to the board itself if there is no audit committee) in the functional aspects and to the CEO in the administrative aspects. The largest share of companies where this department reports to the CEO both in the functional and administrative terms is among state-owned companies (59% in 2009). The 2009 figure for the total sample and for listed companies was 36% and 29%, respectively.

The share of companies that disclose detailed information about members of the board and executive bodies remains large but the disclosure of their individual remuneration is traditionally weak. The share of companies that disclosed individual remuneration of each board member was 11% in 2009 in the total sample (13% in 2008), 16% (21%) among listed companies and 7% (5%) among state-owned companies. The disclosure of individual executives' remuneration is even weaker in 2009: 4% (3% in 2008) in the sample, 3% (5%) among listed companies, and 3% (0%) among state-owned companies.

As was noted above, the disclosure of financial statements under RAS and IFRS is not always accompanied by the disclosure of an external auditor's report about reliability of these statements. This might make these statements less valuable for their recipients.

Almost all surveyed companies publish annual reports on their corporate websites (99% in 2009), but their compliance with the statutory requirements to the contents of annual report remains rather poor: 60% in the total sample, 67% among listed companies, and 53% among state-owned companies.

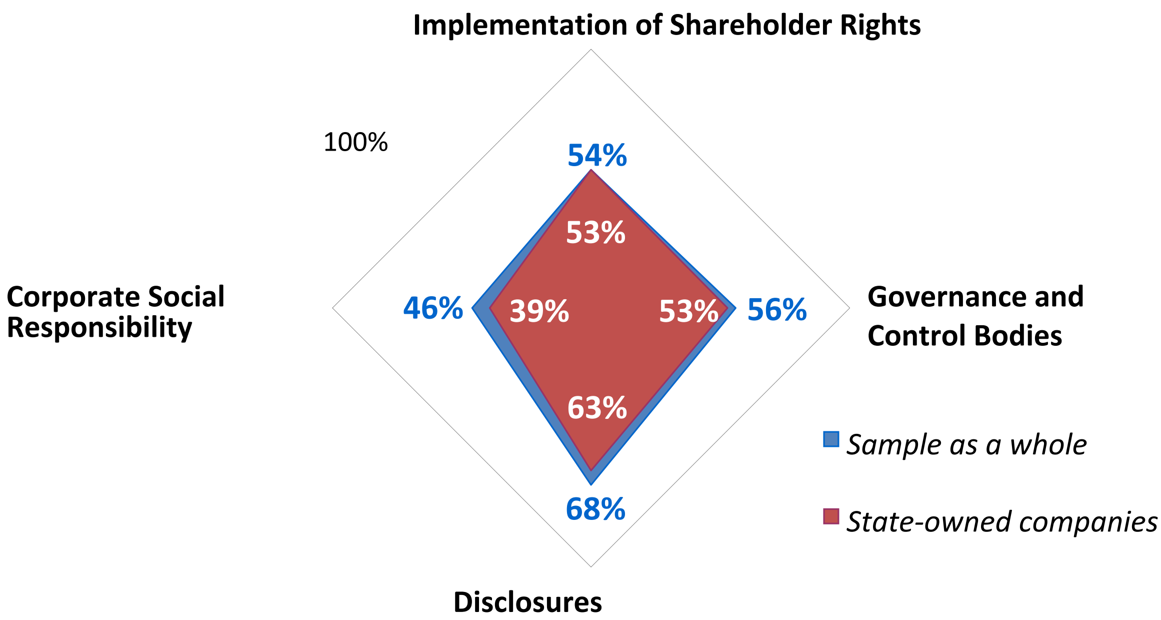
Companies demonstrate a fairly high incidence of CSR programs for employees and their families and for the local communities. Yet, the share of companies that have approved an internal policy paper on CSR principles remains small. The sample as a whole had 27% of companies that approved an internal policy on corporate social responsibility. The respective figures were 27%, 34% and 24% for the sample as a whole, and listed and state-owned companies, respectively.

State-Owned Companies: Are They Leaders in the Development of Corporate Governance?

The **comparison** of corporate governance in the **sample as a whole** and in **state-owned companies** shows that the latter generally lag behind in all four components although this lagging is minor in some of them (see Chart 4):

1. "Implementation of Shareholder Rights": the level of corporate governance practices in state-owned companies is almost the same as the sample average (53% against 54%). Yet, in 2008 state-owned companies were ahead of the sample in this respect (53% against 51%).
2. In 2009, "Governance and Control Bodies" was the only component where state-owned companies bridged the gap between them and the total sample – to 3 p.p., the total sample being the leader (5 p.p. in 2008).
3. The gap between state-owned companies slightly increased in 2009 in the "Disclosures" component – to 5 p.p. (2 p.p. in 2008).
4. State-owned companies demonstrated a lower level of corporate governance practices in the "Corporate Social Responsibility" component (39%), thus increasing a gap between themselves and the sample to 7 p.p. The level did not change in the sample as a whole.

Chart 4. Corporate Governance Practices in State-Owned Companies and Sample as a Whole, 2009

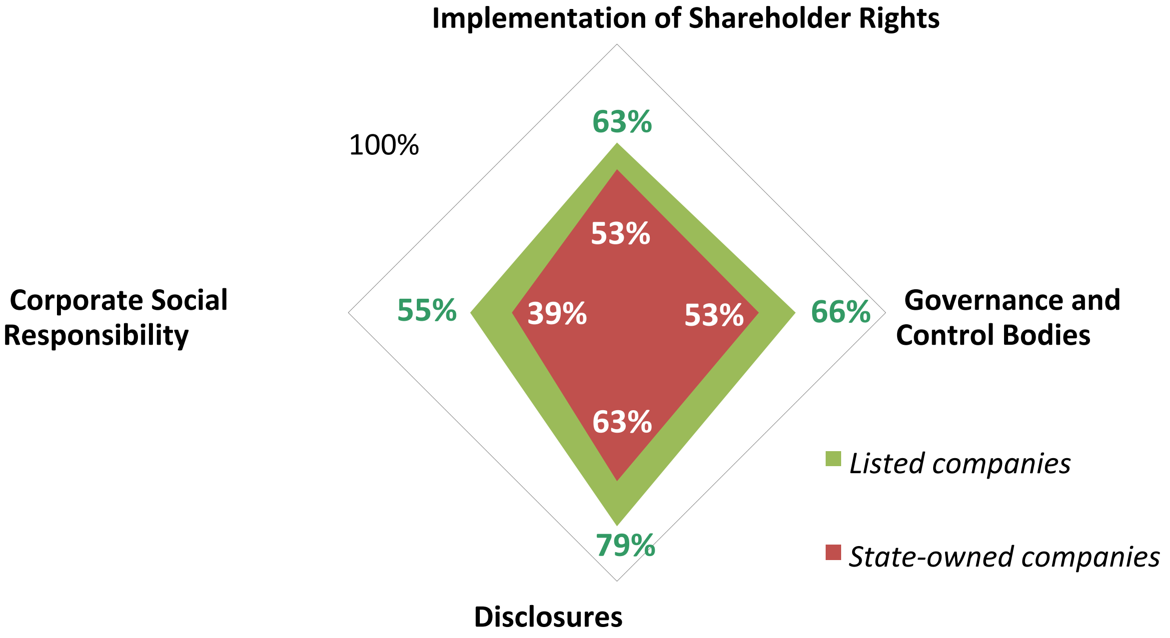


The chart shows a share of component-specific governance recommendations that are complied with, on average, by state-owned companies and the total sample.

The **comparison** of corporate governance in the **listed companies** (they demonstrate a higher level of governance as compared to the sample as a whole) and in the **state-owned companies** shows that the latter are far behind their listed peers (see Chart 5):

1. “Implementation of Shareholder Rights”: the gap between state-owned and listed companies increased to 10 p.p. in 2009, with 53% versus 63% (53% and 59%, respectively, in 2008).
2. The gap between state-owned companies and listed companies in the “Governance and Control Bodies” component remained at the 2008 level, i.e. 13 p.p. (53% vs. 66%).
3. In terms of “Disclosures,” state-owned companies demonstrated a somewhat larger lag behind listed companies in 2009 – by 16 p.p. (63% vs. 79%) instead of 13 p.p. in 2008 (65% vs. 78%).
4. The “Corporate Social Responsibility” component demonstrated a gap between state-owned and listed companies in favor of the latter – 6 p.p. in 2009 (39% vs. 55%), while both groups reported the same level in 2008 for this component (45%).

Chart 5. Corporate Governance Practices in State-Owned and Listed Companies, 2009



The chart shows a share of component-specific governance recommendations that are complied with, on average, by state-owned and listed companies

More detailed information about governance aspects in which state-owned companies lag behind the sample and listed peers, and the size of the gap, is described further in "Component-Specific Analysis of Corporate Governance Practices."

The survey findings show that state-owned companies **are not leaders in the development of corporate governance**. This is reflected in that they lag behind listed companies that demonstrate the highest level of the governance development.

In some aspects of every governance component, state-owned companies demonstrate better performance than the total sample and listed peers.

For example, the number of state-owned companies where boards of directors include at least a quarter of independent directors went up substantially in 2009. The share of such companies increased by 21 p.p. relative to 2008 and reached 45%. The sample as a whole and listed companies demonstrated negative dynamics of this parameter (minus 5 p.p., from 38% to 33%; and minus 9 p.p., from 53% to 44%, respectively).

State-owned companies demonstrate better discipline of dividend payments but the overall level of this component remains modest. The share of companies that have short dividend payout periods (less than 60 days) and fully pay at least 90% of their announced dividend was 23% in the total sample and only 18% among listed companies in 2009. The share of such state-owned companies was 31%.

State-owned companies have much better practices of holding tenders when they chose suppliers of goods and services. The share of companies whose internal documents require open tenders for providers of goods and services the value of which exceeds the level set by the company was 58% for the sample (64% for listed companies), and 83% for state-owned companies (29% in 2008).

However, the number of aspects of corporate governance practices where state-owned companies performed better than the sample or even listed peers remains small. State-owned companies' success in these aspects is largely based on government regulation which is targeted, among other things, at the development and implementation of corporate governance standards in GREs.

As we noted elsewhere above, positive changes in the corporate governance practices of state-owned and other companies are not yet comprehensive. The government's efforts to hire independent directors to companies could be viewed as the first steps toward changing the model of management which the State uses in GREs. The transition from "manual steering" via government officials to the model of truly strategic management and control would be a very timely step. Modern corporate governance is not limited to actions that facilitate understanding of situations in the companies and prospects of their development, or enhance the protection of rights of different investor categories. It is also a tool for better administration of companies at the strategic level, better use of their available resources, efficient risk management, control and executive incentives. It eventually supports these companies' long-term viability. In our view, however, the ultimate result can be achieved only if steps toward changing the boardrooms in GREs become the first efforts toward comprehensive improvement of corporate governance practices and are further continued. If the appointment of independent directors is viewed as a self-sufficient action per se and will not be supported by the cover-all enhancement of the governance practices, there is a high likelihood that the targeted improvement of effectiveness will not be achieved, and institutional directors (as a category) will be discredited – at least in these companies. Furthermore, it is implementation of a comprehensive approach (which implies establishment and improvement of corporate governance bodies, policies and procedures) is an important prerequisite for taking leading positions in this area.

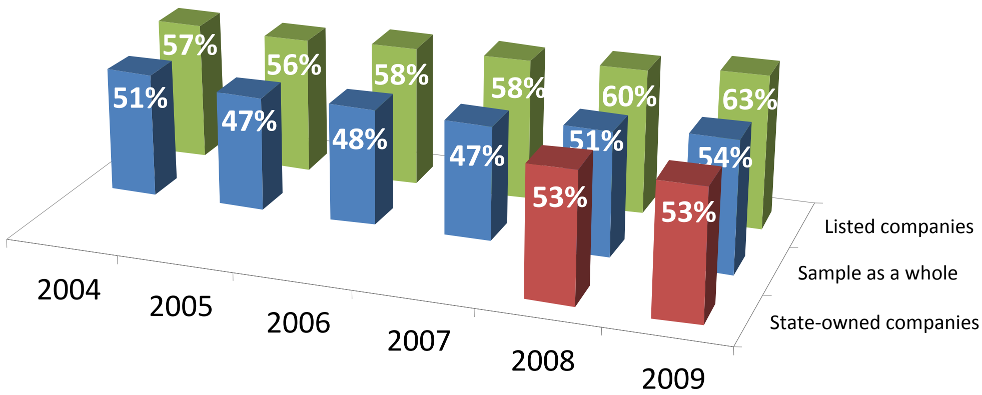
Component-Specific Analysis of Corporate Governance Practices

Implementation of Shareholder Rights

1. Implementation of shareholder rights in the Russian companies has scarcely changed over the past six years (2004-2009), and remains at a relatively low level (see Chart 5.1).
2. In 2009, the companies in the sample as a whole complied with 54% of recommendations (on average) pertaining to the "Implementation of Shareholder Rights" component, which is only 3 p.p. above the 2008 level.
3. The level of corporate governance in the MICEX-listed companies in 2009 improved very modestly relative to the previous year: companies of this group complied with 63% of recommendations on average (growth by 3 p.p.). At the same time, it is this subgroup that retains a higher level of governance practices in implementation of shareholder rights.
4. This indicator, unchanged for state-owned companies in 2009, reached 53% - this is comparable with the figure for the total sample but 10 p.p. below the level for the listed companies.

Chart 5.1 Development of Corporate Governance Practices – Implementation of Shareholder Rights, 2004-2009

The figure shows the share of governance recommendations for "Implementation of Shareholder Rights" that are complied with, on average, by the companies included in the surveyed groups.



The following aspects of corporate governance practices in the "Implementation of Shareholder Rights" component (which achieved a fairly high level in 2009) are the **best developed** ones:

1. Many companies employ reputed firms (leaders in the audit services market) as external auditors: 87% in the total sample and 99% among listed companies. However, state-owned companies demonstrated a much lower incidence rate in 2009 – 76% (minus 10 p.p. as compared to 2008).
2. There is a large share of companies that do not use cross-ownership practices: 89% for the sample as a whole, 91% of listed companies and 97% in the group of state-owned companies).
3. There is a relatively large share of companies where register of shares is kept by an independent registrar (73% in the sample; 75% of listed companies). The share of state-owned companies that employ independent registrars is much smaller (52%).
4. Almost all listed companies have approved separate internal documents that regulate the use of insider information (99% in 2009). The figure is 71% in the sample as a whole.
5. State-owned companies demonstrate high incidence of using tender-based selection of external auditor (97% in 2009). There are many state-owned companies whose internal documents require tenders to be held when they choose suppliers of goods and services where the value exceeds a pre-set level (83% in 2009).

The survey identified the following aspects of corporate governance practices in the "Implementation of Shareholder Rights" component which demonstrated **sustainable positive changes** in 2009:

1. Extended practice of regulating the use of insider information in the companies. The share of corporates that approved separate internal documents in this area has increased by 41 p.p. in the total sample since 2004 (annual growth by more than 8 p.p. on average) and reached 71% in 2009.

2. The share of companies that do not employ cross-ownership practices has increased (2005-2009: from 70 to 89% in the sample and from 67% to 91% among listed companies).
3. The share of companies that expand the authority of the board with respect to pre-approval of transactions with assets exceeding 25% of their balance sheet value has been increasing since 2005 (annual growth by 3.5 p.p. on average in the sample, to 61% in 2009; and by 6.5 p.p. among listed companies – to 73% in 2009).
4. Companies are more proactively hiring leading reputed audit firms as external auditors (2004-2009: up from 59% to 87% in the sample and from 72% to 99% among listed companies).
5. The share of companies that adopted their own codes of corporate conduct has been gradually increasing in 2004-2009: from 26% to 53% in the sample and from 60% to 76% among listed companies. But the absolute incidence of this practice remains modest.

The following aspects of corporate governance practices in the "Implementation of Shareholder Rights" component **need improvement**:

1. The disclosure of GSM materials via corporate websites remains low (32% for the sample; 55% among listed companies; and 28% among state-owned companies).
2. Only about a half of companies in the sample select external auditors via open tenders, although this number increased in 2009 (51% vs. 41% in 2008); 53% vs. 39% in 2008 among listed companies.
3. Modest discipline of dividend payment in full (at least 90%) and within a reasonable period (60 days). The payout period exceeds 60 days in most companies, or companies do not pay dividend in full (the share of such companies is 77% in the sample, 82% among listed companies and 69% among state-owned companies).
4. The practice of annual dividend payment (which used to be at a modest level) has further deteriorated during the crisis. The share of companies that paid dividend annually during the past three years went down by 13 p.p. in the sample and reached 38% in 2009 (down from 46% to 61% among listed companies and from 81% to 34% among state-owned entities).
5. The share of companies that have adopted their own codes of corporate conduct has been increasing gradually but the absolute incidence rate for this practice remains modest (53% in the sample and 45% among state-owned companies). Listed companies are an exception: 76% have internal codes of corporate conduct.
6. Mandatory employment of an independent appraiser in cases other than those required by law is not common: 28% in the sample, 34% in the group of listed companies and 28% among state-owned companies.

The survey findings also help to **compare** the development of different aspects of corporate governance practices (with respect to implementation of shareholder rights) in the **state-owned companies** and in the **sample as a whole**:

Aspects Where the Level of Corporate Governance (Shareholder Rights) in State-Owned Companies vs. the Sample Is …

Higher	Comparable	Lower

1. Internal documents include a requirement about selecting the providers of goods and services through an open tender. 2. There is no cross-ownership practice. 3. External auditor is chosen via a tender. 4. Dividend on common stock is paid within 60 days.	1. Appraiser is employed in cases other than those required by the federal law "On Joint-Stock Companies." 2. There is an approved dividend policy. 3. The board of directors takes a decision about approving transactions < 25% of the balance-sheet asset value. 4. GSM materials are posted on the corporate website. 5. The company announced and paid dividend over the past 3 years.	1. Register of shareholders is kept by an independent registrar. 2. There is no shareholder that owns 75% (or more) of the company's stock. 3. The company has an internal document which regulates the use of insider information. 4. An external auditor is a "Big Four" or another leading audit firm. 5. There is an approved Code of Corporate Conduct.

The **comparison** between different aspects of corporate governance practices (with respect to implementation of shareholder rights) in the **state-owned** and **listed companies** provided the following findings:

Aspects Where the Level of Corporate Governance (Shareholder Rights) in State-Owned Companies vs. MICEX-Listed Companies Is …

Higher	Comparable	Lower
1. Internal documents include a requirement about selecting the providers of goods and services through an open tender. 2. There is no cross-ownership practice. 3. External auditor is chosen via a tender. 4. Appraiser is employed in cases other than those required by the federal law "On Joint-Stock Companies." 5. Dividend on common stock is paid within 60 days.		1. Register of shareholders is kept by an independent registrar. 2. The board of directors takes a decision about approving transactions < 25% of the balance-sheet asset value. 3. The company has an internal document which regulates the use of insider information. 4. There is no shareholder that owns 75% (or more) of the company's stock 5. GSM materials are posted on the corporate website компании. 6. An external auditor is a "Big Four" or another leading audit firm. 7. There is an approved dividend policy. 8. The company announced and paid dividend over the past 3 years. 9. There is an approved Code of Corporate Conduct.

The comparison of companies operating in **different sectors of economy** (with respect to implementation of shareholder rights) in terms of corporate governance development looks as follows:

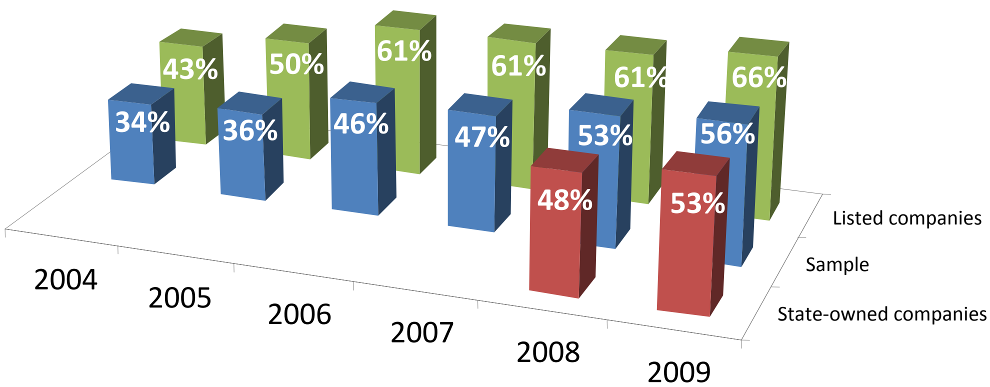
Chart 5.2 **Sector-Specific Development of Corporate Governance Practices in the Sample, 2009**

The chart shows a share of recommendations about corporate governance practices for a given component – average compliance by the companies in each sector, in the sample as a whole

Governance and Control Bodies

1. Corporate governance practices with respect to the work of governance and control bodies have been steadily improving in 2004-2009 (see Chart 6.1).
2. On average, the sample-wide level of compliance with recommendations in the "Governance and Control Bodies" component was 56% in 2009. The companies continued demonstrating positive changes of the governance practices in this area. The findings improved by 22 p.p. relative to 2004, with the average annual growth of more than 5 p.p. in 2004-2009.
3. MICEX-listed companies are relatively better performers as compared to other companies (they complied, on average, with 66% of all recommendations in 2009). This level went up by 5 p.p. as compared to 2004, and growth amounted to 23 p.p.
4. The level of corporate governance practices with respect to the governance and control bodies reached 53% in state-owned companies in 2009, up by 5 p.p. against 2004. But this figure is 3 p.p. below the figure for the total sample, and is still 13 p.p. behind that of the listed companies.

Chart 6.1 Development of Corporate Governance Practices – "Governance and Control Bodies," 2004-2009



The figure shows the share of governance recommendations for "Governance and Control Bodies" that are complied with, on average, by the companies included in the surveyed groups.

The following aspects of corporate governance practices in the "Governance and Control Bodies" component (which achieved a fairly high level in 2009) are the **best developed** ones:

1. Almost 100% of companies hold the board meetings more frequently than once a quarter: 99% in the sample and 100% of listed and state-owned companies.
2. The adoption of a special internal document which regulates the board's work is common. The share of companies that had regulations about the board of directors in 2009 reached 94% in the sample and 99% among listed companies. State-owned companies with 86% somewhat lagged behind in 2009.

3. The share of companies that pay remuneration to directors is high in the sample as a whole: 82% in 2009. Almost all listed companies (99% in 2009) pay remuneration to the board members. However, state-owned companies lagged very much behind in the report year, with 55%.
4. State-owned companies had a large share of those that have at least one independent director in the boardroom (83% and 76% in 2009 and 2008, respectively).
5. Listed companies have a large share of those that established the audit and personnel and remuneration committees in 2009 (99% and 85%, respectively) and the internal audit service (94% in 2009 as compared to 84% a year before).
6. The approval of a special internal document regulating the work of the company's executive bodies is common practice. The share of companies that have such internal documents reached 79% in the sample in 2009, and 93% among listed companies.

The survey identified the following aspects of corporate governance practices in the "Governance and Control Bodies" component which demonstrated **sustainable positive changes** in 2004-2009:

1. Mechanisms that lower the risks of conflicts of interests for the board members became more common: the share of companies that established such mechanisms increased in 2004-2009 by 29 p.p. to 73% in the sample and by 23 p.p. to 79% among listed companies. In the state-owned companies, this figure has increased from 38% to 55% over the past two years when this subgroup was covered by the surveys.
2. The practice of establishing audit committees and personnel/remuneration committees became more common. The share of companies that established an audit committee increased in 2004-2009 by 54 p.p. to 77% in the sample. The share of companies that established the personnel and remuneration committee increased by 46 p.p. to 65%. The respective increase for the listed companies in the same period was 43% and 37%.
3. Mechanisms that lower the risks of conflicts of interests for the members of the companies' executive bodies became more common: the share of companies that established such mechanisms since 2004 has increased by more than twofold – to 63% in the sample and by 42 p.p. to 78% among listed companies.
4. The practice where internal audit departments report to the board has become more common. In 2009 the share of such companies has increased by 25 p.p. to 64% as compared to 2005 in the sample and by 11 p.p. (to 71%) among listed companies.

The survey identified the following aspects of corporate governance practices that **require improvement** in the "Governance and Control Bodies" component (their incidence remained low in 2009):

1. About one third of the surveyed companies still do not have independent directors on their boards: the share of companies without independent directors amounted to 34% in the sample and 24% among listed companies in 2009. State-owned companies compare favorably with the two other subgroups, with 17% in 2009, although there were 24% such companies a year before.
2. The share of state-owned companies that established mechanisms for lowering exposure to the conflicts of interests among the board members is only 55%.

3. There is a large share of companies where some board members sit on the boards of more than five other companies (41% for the sample as a whole; 55% among listed companies; and 38% among state-owned companies).
4. The practice of skills development training for the board members and recruitment of external consultants did not become common in the Russian corporate environment (12% and 37%, respectively, in the sample; 16% and 51%, respectively, among listed companies; and 7% and 28% among state-owned companies).
5. The practice of having a fully independent board or a board consisting of independent and nonexecutive directors is not developing. The share of companies where the board committees include executive directors and external aspects with the voting rights (which is inconsistent with the best governance practices) is still large.
6. The share of companies that do not put members of their governance bodies and the company's employees in the audit commissions is still small (39% in the sample; 43% among listed companies). State-owned companies where this share is 62% are doing somewhat better in this respect.
7. The share of companies that have the position of corporate secretary was only 42% in 2009 in the sample and 55% among listed companies. Only 17% of state-owned companies have corporate secretaries.
8. Only 39% of the companies in the sample have internal documents that link top management's remuneration to the corporate performance (55% for the listed companies and 38% for state-owned ones).
9. Succession planning practices remained poor and without visible changes. In 2009, the share of companies that made a personnel reserve pool and top management succession plan amounted to only 32% in the sample, 40% in the group of listed companies and 24% among state-owned companies.

The survey outcomes also help to make the following **comparison** between the levels of various aspects in the governance practices related to shareholder rights in the **government-related companies**, on the one hand, and **in the sample as a whole**, on the other hand:

Aspects Where the Level of Corporate Governance (Shareholder Rights) in State-Owned Companies vs. the Sample Is …

Higher	Comparable	Lower
1. Independent directors have at least a quarter of seats in the board. 2. Executive directors have less than a quarter of seats in the board. 3. The company has a collective executive body. 4. Independence of the audit commission members.	1. The board meets at least once in six weeks. 2. Board members sit on the boards of not more than 5 other companies. 3. The company employs practices of skill development for the board members. 4. The board has audit and personnel & remuneration committees. 5. Executive directors are not included in the board-level audit and personnel & remuneration committees. 6. Internal documents state that management's remuneration is linked to the company's performance.	1. The company has an approved Regulation on the Board of Directors. 2. The board can hire external consultants. 3. Remuneration is paid to the board members. 4. The company has a procedure for the board members to declare their affiliation. 5. The board-level committees meet regularly. 6. The company has internal documents that regulate the work of its executive bodies. 7. There are mechanisms that lower

		the risk of conflicts of interest among members of executive bodies. 8. The company has a personnel reserve for top managers. 9. The company has an internal audit unit. 10. The internal audit unit reports to the board of directors in the functional terms. 11. The company has a position of corporate secretary.

The **comparison** between different aspects of corporate governance practices (with respect to the process of the governance and control bodies) in the **state-owned** and **listed companies** provided the following findings:

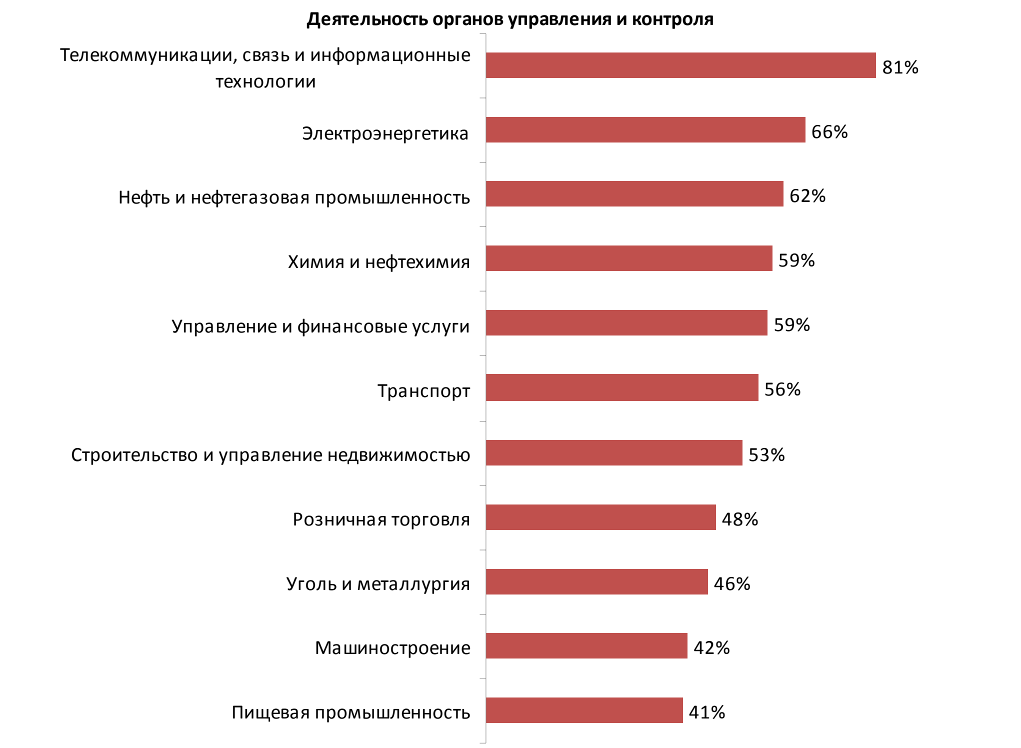
Aspects Where the Level of Corporate Governance (Shareholder Rights) in State-Owned Companies vs. MICEX-Listed Companies Is …

Higher	Comparable	Lower
1. Executive directors have less than a quarter of seats in the board. 2. Board members sit on the boards of not more than 5 other companies. 3. Independence of the audit commission members.	1. Independent directors have at least a quarter of seats in the board. 2. The board meets at least once in six weeks. 3. The company has a collective executive body.	1. The company has an approved Regulation on the Board of Directors. 2. The company employs practices of skill development for the board members and the board can hire external consultants. 3. Remuneration is paid to the board members. 4. The company has a procedure for the board members to declare their affiliation. 5. The board has audit and personnel & remuneration committees. 6. The board committees meet regularly. 7. Executive directors are not included in the board-level audit and personnel & remuneration committees. 8. The company has internal documents that regulate the work of its executive bodies. 9. There are mechanisms that lower the risk of conflicts of interests for members of executive bodies. 10. Internal documents state that management remuneration is linked to the company's performance. 11. The company has a personnel reserve for top managers. 12. The company has an internal audit unit.

		13. The internal audit unit reports to the board of directors in the functional terms. 14. The company has a position of corporate secretary.

The comparison between companies operating in **different sectors of the national economy**, in terms of their governance and control bodies, provided the following findings:

Chart 6.2 Development of Corporate Governance Practices by Sector (Sample), 2009



The chart shows the share of governance recommendations for the abovementioned component that are complied with, on average, by the companies in each sector (for the total sample)

Disclosures

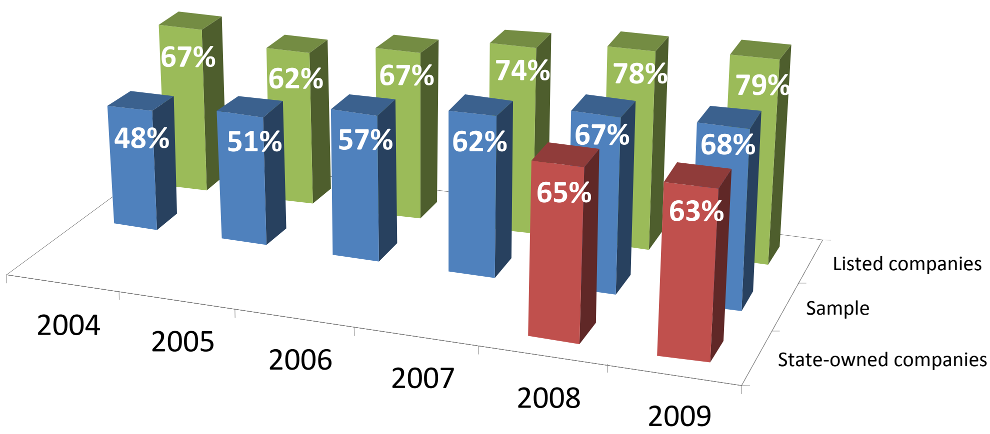
1. The disclosure practices of Russian companies are better developed than other corporate governance components. At the same time, the share of recommendations that are complied with (on average) in the "Disclosures" component amounted to 68% in 2009 for the sample as a whole, up by only 1 p.p. as compared to 2008 (see Chart 7.1).

2. There were steadily positive changes in the development of this component in 2004-2008: the total increase for the sample amounted to 19 p.p., and annual increase was almost 5 p.p. However, as could be seen from the Chart, growth rates slowed down in 2009. This component seems to be reaching a saturation stage where its development is stabilized because the companies reach the highest level which is possible for the current environment.

3. MICEX-listed companies demonstrate a higher level of corporate governance practices in this component. This indicator declined to its lowest level in 2005 (to 62% from 67%) but gained about 5 p.p. annually since then and achieved 78% in 2009. However, its dynamics slowed down in 2009, and the annual growth was only 1 p.p.

4. This indicator declined by 2 p.p. relative to 2008 for state-owned companies and amounted to 63% in 2009. Thus, state-owned companies are 5 p.p. behind the total sample and 16 p.p. behind listed companies.

Chart 7.1 Development of Corporate Governance Practices – "Disclosures," 2004-2009



The figure shows the share of governance recommendations for "Disclosures" that are complied with, on average, by the companies included in the surveyed groups.

The following aspects of corporate governance practices in the "Disclosures" component (which achieved a fairly high level in 2009) are the **best developed** ones:

1. Almost 100% of companies disclose their RAS financials (98% in the sample, 100% of listed companies and 97% of state-owned companies).
2. Almost 100% of the surveyed companies publish annual reports on their corporate websites (99% of the sample; 100% of listed companies: and 100% of state-owned companies).
3. State-owned companies are more transparent in terms of their ownership as they disclose information about their major owner, i.e. the State (79%).
4. All subgroups included in the survey demonstrate almost 100% disclosure of information about composition of their boards and executive bodies.
5. A high level of disclosures via corporate websites is demonstrated by listed companies: the share of disclosed information relative to the maximum possible disclosure amounted to 80% in 2009 in this group.

The survey identified the following aspects of corporate governance practices in the "Disclosures" component which demonstrated **sustainable positive changes** in 2004-2009:

1. Over the past six years, the companies have been gradually improving their practices of disclosing external auditor's reports that should be attached to the published RAS-based statements. These practices improved by 51 p.p. in the sample as a whole (growth exceeded 10 p.p. a year on average) – to 87% in 2009, and by 25 p.p. among listed companies (up by 5 p.p. a year on average) to 93%.
2. The companies substantially improved their disclosure of external auditor's reports on the IFRS-based statements, with growth by 40 p.p. (8 p.p. a year on average) in the sample and 28 p.p. (over 5 p.p. a year on average) among listed companies.
3. The share of companies that approved an internal regulation on their information policy has tended to increase since 2005. The increase was 23 p.p. (from 34% to 57%) in the sample and 20 p.p. (from 61% to 81%) among listed companies.
4. The share of companies that provide equal access to their corporate information for the Russian and foreign investors (through consistency of English and Russian versions of their websites) increased in 2004-2009 by 32 p.p. (to 48%) in the sample and by 26 p.p. (to 70%) among listed companies.

The survey identified the following aspects of corporate governance practices that **require improvement** in the "Disclosures" component (their incidence remained low in 2009):

1. A modest level of practices where a company approves a separate internal regulation on information policy (57% in the sample as a whole).
2. Transparency of the companies' equity structure is not insufficiently high (53% for the total sample; 39% among listed companies). State-owned companies are an exception: they demonstrate a higher level of transparency because they disclose information about the State as their majority owner (79%).
3. The disclosure of individual remuneration paid to each member of the board and executive bodies is very low (11% and 4%, respectively, in the sample; 16% and 3% among listed companies: and 5% and 0% among state-owned companies).
4. Russian companies demonstrate moderate compliance with the legislative requirements to the contents of annual reports (60% in the sample; 67% among listed companies; and 53% among state-owned companies).

5. The disclosure of minutes of the board meetings (or excerpts from minutes) via an appropriate separate section on the website is at a low level (19% in the sample; 27% among listed companies; and 17% among state-owned companies).

The survey findings also help to **compare** the development of different aspects of corporate governance practices (with respect to the disclosure practices) in the **state-owned companies** and in the **sample**:

Aspects Where the Level of Corporate Governance (Disclosures) in State-Owned Companies vs. the Sample Is …

Higher	Comparable	Lower
1. Disclosure of the company's shareholders. 2. Disclosure of the company's development strategy.	1. Disclosure of RAS-based statements. 2. Disclosure of remuneration paid to the board members. 3. Disclosure of remuneration paid to members of executive bodies. 4. Disclosure of the board decisions. 5. Quality of the corporate website.	1. Disclosure of IFRS/GAAP-based statements. 2. Disclosure of the board composition. 3. Disclosure of composition of executive bodies. 4. Disclosure of corporate governance practices. 5. There are regulations on disclosure. 6. Compliance with the legislative requirements to the contents of annual report. 7. Equal access of information for Russian and foreign investors.

The **comparison** of different aspects of corporate governance practices (with respect to disclosure of information) in the **state-owned** and **listed companies** provided the following findings:

Aspects Where the Level of Corporate Governance (Disclosures) in State-Owned Companies vs. MICEX-Listed Companies Is …

Higher	Comparable	Lower
1. Disclosure of the company's shareholders.	1. Disclosure of RAS-based statements.	1. Disclosure of IFRS/GAAP-based statements. 2. Disclosure of the board composition. 3. Disclosure of composition of executive bodies. 4. Disclosure of remuneration paid to the board members. 5. Disclosure of remuneration paid to the members of executive bodies. 6. Disclosure of the company's development strategy. 7. Disclosure of the board decisions. 8. Disclosure of corporate governance practices. 9. There are regulations on disclosure. 10. Compliance with the legislative requirements to the contents of annual report. 11. Quality of the corporate website. 12. Equal access of information for Russian and foreign investors.

The comparison of companies operating in **different sectors of the national economy** in terms of their disclosure practices provided the following findings:

Chart 7.2 Development of Corporate Governance Practices by Sector (Total Sample), 2009

The chart shows the share of governance recommendations for the abovementioned component that are complied with, on average, by the companies in each sector (for the total sample)

Corporate Social Responsibility

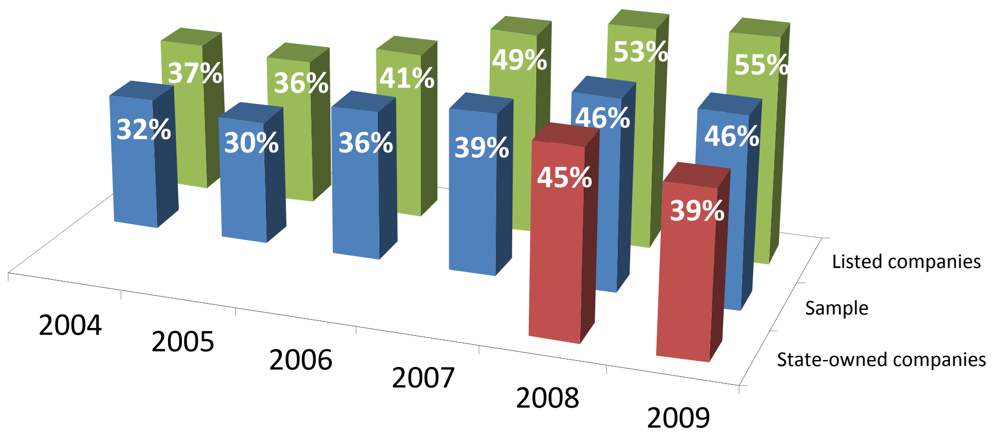
1. The development of corporate social responsibility practices in the Russian companies remains at a low level. On average, companies in the sample complied, on average, with 46% of recommendations related with the "Corporate Social Responsibility" component.

2. The last five years demonstrated positive dynamics in the development of corporate social responsibility in the Russian companies (see Chart 8.1). However, this positive trend stopped in 2009. In 2004-2008, compliance with recommendations on corporate social responsibility went up by 14 p.p. from 32% to 46% in the sample (plus 3.5 p.p. a year on average). But this level remained unchanged at 46% in 2009 as compared to the previous year.

3. MICEX-listed companies demonstrate more advanced CSR practices in this component, with 55% against 46% in the sample in 2009.

4. The level in state-owned companies in 2008 was broadly comparable with the level in the sample as a whole (45%). But it declined substantially in 2009 (by 6 p.p., from 45% to 39%).

Chart 8.1 Development of Corporate Governance Practices – "Corporate Social Responsibility," 2004-2009



The figure shows the share of governance recommendations for "Corporate Social Responsibility" that are complied with, on average, by the companies included in the surveyed groups

The survey identified the following aspects of corporate governance practices in the "Corporate Social Responsibility" component which had a relatively high level in 2004-2009:

1. Implementation of CSR projects for employees and their families remains at a high level of 77% in the sample and 85% among listed companies.
2. Implementation of CSR projects for the communities is at a fairly high level, too, albeit its level went down in 2009: 67% (75% in 2008) in the sample and 78% (86%) among listed companies.

The survey identified the following aspects of corporate governance practices in the "Corporate Social Responsibility" component which demonstrated **sustainable positive changes** in 2004-2009:

1. The share of companies that have official documents regulating goals, objectives and principles of corporate social responsibility increased in 2004-2009 from 6% to 27% in the sample and from 6% to 34% among listed companies.
2. The share of companies that have approved codes of corporate ethics increased from 9% to 27% in the sample and from 16% to 39% among listed companies over the past five years.

The survey identified the following corporate governance aspects that **require improvement** in the "Corporate Social Responsibility" component (their incidence remained low in 2009):

1. Low incidence of CSR projects for the companies' counterparties: the share of such companies in 2009 was 31% in the sample, 37% among listed corporates, and 34% among state-owned companies.
2. Not many companies adopt a public document describing their principles and approaches to implementation of corporate social responsibility: 27% in the sample, 34% among listed companies and 24% among state-owned companies.
3. Not many companies adopt codes of corporate ethics: 27% in the sample, 39% among listed companies and 21% among state-owned companies.

The survey findings also help to **compare** the development of different aspects of corporate governance practices (with respect to corporate social responsibility) in the **state-owned companies** and in the **sample**:

Aspects Where the Level of Corporate Governance (Corporate Social Responsibility) in State-Owned Companies vs. the Sample As a Whole Is …

Higher	Comparable	Lower
	1. CSR projects for the company's counterparties. 2. There is a document which sets principles of corporate social responsibility for the company.	1. CSR projects for the company's employees and their families. 2. CSR projects for the community. 3. The company has a code of corporate ethics.

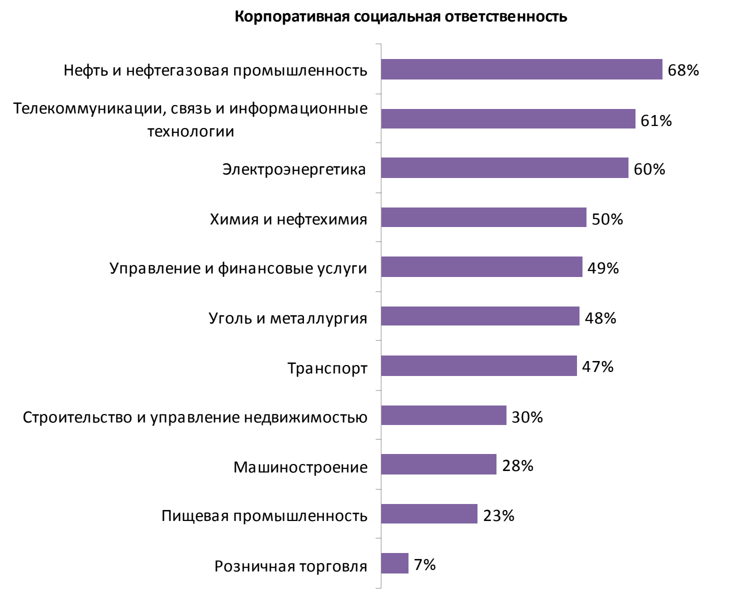
The **comparison** between different aspects of corporate governance practices (with respect to corporate social responsibility) in the **state-owned** and **listed companies** provided the following findings:

Aspects Where the Level of Corporate Governance (Disclosures) in State-Owned Companies vs. MICEX-Listed Companies Is …

Higher	Comparable	Lower
	1. CSR projects for the company's counterparties.	1. CSR projects for the company's employees and their families. 2. CSR projects for the community. 3. There is a document which sets principles of corporate social responsibility for the company. 4. The company has a code of corporate ethics.

The **comparison** between companies operating in different sectors of the national economy in terms of their disclosure practices provided the following findings:

Chart 8.2 Development of Corporate Governance by Sector (Sample), 2009



The chart shows the share of governance recommendations for the abovementioned component that are complied with, on average, by the companies in each sector (for the total sample)

Annex: Corporate Government Development Statistics, 2004-2009

Implementation of Shareholder Rights

Table 1.1.1. Registration of Ownership

In order to ensure that the right to own shares is reliably registered, the best corporate governance practices recommend that the register of shareholders is kept and maintained by a registrar which is independent of the company[7], its management team and shareholders.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Company used an independent registrar	**73%**	73%	84%	85%	84%	58%	**75%**	72%	79%	76%	79%	44%	**52%**	48%
Registrar's affiliation is identified or the company itself maintains the register	**27%**	27%	16%	15%	16%	42%	**25%**	28%	21%	24%	21%	56%	**48%**	52%

Table 1.1.2. Tenders for Suppliers of Goods and Services

Tenders for selecting the suppliers of goods and services the costs of which exceed the level set by the company should help to use corporate resources more efficiently (because the selection is made among competing bids) and lower the risk of a conflict between the interests of the management team and the company.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	**2008**
Internal corporate documents include a requirement to hold tenders for the selection of suppliers of goods and services the costs of which exceed the level established by the company	**58%**	39%	41%	32%	44%	36%	**64%**	40%	39%	33%	44%	40%	**83%**	**29%**

[7] In this survey, independence of the registrar from a company means that this company and its subsidiaries and dependent companies do not own shares of the registrar's equity, and the company is not represented in the registrar's managing bodies.

Table 1.1.3. Criteria of Transactions Subject to Approval by the Board of Directors

The reasonable extension of the board's authority to have preliminary consideration and approval of major transactions helps to increase control over the safety of corporate assets. Besides, it lowers risks related to possible abuses by the management of the company. According to the methodology of this survey, the positive extension of the board authority is its preliminary approval of transactions that amount to 10-25% of the balance-sheet value of the company's assets or less than 10% of the balance-sheet value of assets.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The board of directors takes a decision about the approval of transactions amounting to 25-50% of the balance-sheet value of assets	**39%**	45%	50%	51%	53%	48%	**27%**	32%	42%	44%	53%	40%	**41%**	48%
The board of directors takes a decision about the approval of transactions amounting to 25% of the balance-sheet value of assets, including:	**61%**	55%	50%	49%	47%	52%	**73%**	68%	58%	56%	47%	60%	**59%**	52%
10-25% of the balance-sheet value of assets	**18%**	17%	28%	20%	27%	32%	**15%**	17%	32%	26%	19%	32%	**35%**	24%
Less than 10% of the balance-sheet value of assets	**43%**	38%	22%	29%	20%	20%	**58%**	51%	26%	30%	28%	28%	**24%**	28%

Table 1.1.4. Independent Appraiser

Pursuant to Federal Law *On Joint-Stock Companies*, the hiring of an independent appraiser is mandatory in the case of share buy-out by the company. Other cases where it is recommended that hiring of an appraiser should be mandatory (according to the methodology of this survey) include cases when terms and conditions for major transactions are set, the coefficient of share conversion is established when a company undergoes reorganization, and the divestiture of shares of a company's subsidiaries and dependents.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Hiring of an appraiser is mandatory not only in cases stipulated by the Federal Law *On Joint-Stock Companies* (buyout of shares)	**28%**	27%	26%	27%	34%	40%	**34%**	28%	21%	31%	42%	56%	**28%**	38%
Hiring of an appraiser is mandatory only in cases stipulated by the Federal Law *On Joint-Stock Companies* (buyout of shares)	**72%**	73%	74%	73%	66%	60%	**66%**	72%	79%	69%	58%	44%	**72%**	62%

Table 1.1.5. Regulation of Using Insider Information

Insider information usually includes information about a company's operations, its securities and transactions with them which is not available in public domain and the disclosure of which might substantially influence the market value of these securities. The absence or insufficiently effective regulation of using insider information might cause abuse by the persons that have access to it (insiders) and, eventually, have substantial adverse impact on the company's operations, changes in the value of its securities and the financial market in general.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company's board of directors has approved a separate document that regulate the use of insider information	**71%**	67%	56%	45%	35%	30%	**99%**	100%	92%	78%	61%	44%	**52%**	53%
Some provisions related to the use of insider information are formalized in the company's internal documents (e.g. in the Regulation on Information Policy)	**5%**	6%	5%	11%	17%	30%	**0%**	0%	5%	3%	18%	32%	**17%**	14%
The use of insider information is not formalized in the company	**24%**	27%	39%	44%	48%	40%	**1%**	0%	3%	19%	21%	24%	**31%**	33%

Table 1.2.1. Concentration of Ownership Rights

In this survey the level of ownership rights concentration was reviewed in terms of whether a company had the controlling shareholder or a group of related shareholders that own up of 75% of its shares.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
There is a shareholder or a group of related shareholders that control up of 75% of the company's shareholder equity	**41%**	37%	30%	37%	24%	Н/Д	**22%**	28%	18%	24%	19%	Н/Д	**72%**	67%

Table 1.2.2. Disclosure of GSM Materials on Corporate Website

Corporate website is currently one of the most convenient ways of obtaining information about a company and its performance. Therefore, according to the best governance practices, it is recommended that all materials that are to be provided to the shareholders before general shareholder meetings as required by legislation are to be posted on the corporate website.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company posts GSM materials on its corporate website	**32%**	31%	24%	23%	30%	25%	**55%**	47%	39%	45%	51%	43%	**28%**	29%

Table 1.2.3 Cross-Ownership of Company's Shares

For the purposes of this research cross-ownership was understood as a situation where subsidiaries and dependent companies (SDC) owned more than 5% of the parent company's common stock and situations where it was not possible to assess the existence or absence of the cross-ownership practice because the structure of shareholder equity was not transparent.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
No cross-ownership of the company's shares	**89%**	88%	85%	77%	70%	Н/Д	**91%**	91%	87%	70%	67%	Н/Д	**97%**	90%

Table 1.2.4A. Quality of External Auditor

According to the research methodology, the following companies were included in the group of auditors whose opinion guarantees a high level of reliability of the financial statements that they audit:

- The "Big Four" companies (Deloitte Touche Tohmatsu, Ernst & Young, KPMG and PricewaterhouseCoopers);
- Auditors that are members of the largest international audit networks (Baker Tilly International, BDO International, PKF International and others);
- The top 20 companies in the rating list "Russian Audit 2008" made by the rating agency Expert RA.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company employs a "Big Four" auditor or another leading auditor	**87%**	83%	82%	66%	63%	59%	**99%**	96%	100%	89%	65%	72%	**76%**	86%

Table 1.2.4B. External Auditor Chosen Through Tender

Selecting the external auditor through a tender can promote objectivity and independence of external audit.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Company chooses its external auditor through tender	**51%**	41%	30%	30%	34%	45%	**52%**	39%	50%	43%	40%	48%	**97%**	76%

Table 1.3.1. Approval of Dividend Policy

The existence of a separate internal document which regulates a company's dividend policy is in line with recommendations on the best governance practice and promotes the best implementation of the shareholders' right to dividend.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
A separate internal document regulating the company's dividend policy is adopted	**41%**	35%	20%	23%	23%	19%	**57%**	49%	37%	43%	40%	44%	**41%**	43%

Table 1.3.2. Payment of Dividend on Common Shares

Timely and full payment of the announced dividend is evidence of the company's consistent implementation of its dividend policy.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company set a sixty-day dividend pay-out period for common shares and paid at least 90% of the announced dividend	**23%**	31%	36%	33%	35%	27%	**18%**	35%	50%	41%	40%	20%	**31%**	48%
The company does not meet at least one of the abovementioned requirements	**77%**	69%	64%	67%	65%	73%	**82%**	65%	50%	59%	60%	80%	**69%**	52%

Table 1.3.3. History of Dividend Payments

The stability of dividend policy is its important aspect. It helps shareholders and prospective investors to look for benefits from the change of the company's share prices and for income in the form of dividend.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company announced and successfully paid dividend during three pre-survey years	**38%**	51%	44%	44%	45%	45%	**46%**	61%	63%	59%	58%	64%	**34%**	81%
The company periodically announced and successfully paid dividend during three pre-survey years	**39%**	25%	28%	29%	27%	34%	**34%**	16%	24%	22%	19%	24%	**66%**	19%
The company did not pay dividend during three pre-survey years	**23%**	24%	28%	27%	28%	21%	**20%**	23%	13%	19%	23%	12%	**0%**	0%

Table 1.4. Adoption of Code of Corporate Conduct

The adoption of the code of corporate conduct (governance) by a company is usually evidence that the company follows certain principles of corporate conduct in its operations and focuses on the further consistent improvement of practices in this field.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has adopted a code of corporate conduct (governance)	**53%**	49%	43%	37%	28%	26%	**76%**	70%	65%	70%	58%	60%	**45%**	48%

Governance and Control Bodies

Table 2.1.1A. Independent Directors on the Board

Independent directors. The board should have a sufficient number of independent directors in order to maintain its balance. These directors should be able to make objective and independent judgments in the decision-making process and act in the interests of the company and all its shareholders. The Russian Code of Corporate Conduct recommends that independent directors should take at least one quarter of seats in the board of directors.

	Sample						**Listed companies**						**State-owned companies**	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The board has at least one independent director, including:	**66%**	70%	66%	55%	45%	52%	**76%**	83%	86%	92%	68%	Н/Д	**83%**	76%
Independent directors have at least a quarter of seats in the board	**33%**	38%	32%	23%	23%	28%	**44%**	53%	40%	46%	40%	56%	**45%**	24%
Independent directors have less than a quarter of seats in the board	**33%**	32%	34%	32%	22%	24%	**32%**	30%	46%	46%	28%	Н/Д	**38%**	52%
The board does not include independent directors	**34%**	30%	34%	45%	55%	48%	**24%**	17%	14%	8%	32%	Н/Д	**17%**	24%

Table 2.1.1B. Members of Management in the Boards of Directors

Executive directors. According to the best governance practices, the company's management should not be excessively represented in the boardroom, so that this representation would not adversely affect the balance of the board in terms of its ability to exercise effective control over management by the company shareholders[8].

	Sample						**Listed companies**						**State-owned companies**	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
A quarter and more seats in the boardroom belongs to executive directors	**31%**	32%	43%	33%	26%	32%	**25%**	29%	20%	15%	19%	20%	**4%**	5%

[8] Executive directors in this survey include not only those board members that are also members of the company's executive bodies but also those that are heads of the company's structural units or perform other organizational or administrative functions in the company. According to the federal law "On Joint-Stock Companies," members of a company's collective executive body cannot have more than a quarter of seats in its board of directors.

Executive directors have less than a quarter of seats in the board	**69%**	68%	57%	67%	74%	68%	**75%**	71%	80%	85%	81%	80%	**96%**	95%

Table 2.1.2. Regulation on the Board of Directors

The existence of an internal document regulating the procedure of the board meetings and the rights and obligations of the board members helps to regulate the work of this body and thus enhance its effectiveness somewhat.

	Sample						**Listed companies**						**State-owned companies**	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Regulation about the board of directors is adopted	**94%**	94%	88%	86%	73%	70%	**99%**	98%	95%	94%	83%	84%	**86%**	76%

Table 2.1.3. Regularity of the Board Meetings

Regularity of the board meetings can be indirect evidence of its importance in the company's governance system.

	Sample						**Listed companies**						**State-owned companies**	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The board meets more often than once a quarter, including:	**99%**	97%	90%	84%	75%	79%	**100%**	98%	98%	93%	86%	92%	**100%**	95%
The board meets once every six weeks and more frequently	**73%**	64%	59%	45%	41%	49%	**81%**	68%	74%	56%	54%	72%	**76%**	57%
The board meets less frequently than once every sex weeks but more often than once a quarter	**26%**	33%	31%	39%	34%	30%	**19%**	30%	24%	37%	32%	20%	**24%**	38%
The board meets quarterly and less frequently	**1%**	3%	10%	16%	25%	21%	**0%**	2%	2%	7%	14%	8%	**0%**	5%

Table 2.1.4. Memberships in Several Boards

The board members' ability to fully participate in the work of the board depends on the time which they have for attending the board meetings and for preparing to them. In particular, concurrent membership in many boards weakens a director's ability to prepare for, and attend, the board meetings in each of these companies in a sound way.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The board members include directors that sit on the boards of more than five other companies	**41%**	41%	45%	44%	33%	26%	**55%**	53%	66%	57%	47%	56%	**38%**	38%

Table 2.1.5. Director Skills Development and Recruitment of External Consultants

Skills development by the board members and the ability to recruit external consultants are additional factors that contribute to the board effectiveness.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company practices regular skills development of its board members	**12%**	13%	11%	9%	10%	Н/Д	**16%**	18%	14%	15%	11%	Н/Д	**7%**	14%
The company recruits external consultants for providing services to the board, including:	**37%**	32%	28%	22%	25%	Н/Д	**51%**	46%	53%	41%	40%	Н/Д	**28%**	29%
The company has a permanent budget for these purposes	**9%**	9%	13%	11%	7%	Н/Д	**16%**	18%	29%	22%	12%	Н/Д	**7%**	10%

Table 2.1.6 Remuneration of the Board Members

Remuneration of the board members in a company helps to recruit professional directors that have expertise, knowledge, experience and reputation necessary for achieving the company’s goals.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company pays remuneration to the board members	**82%**	79%	78%	87%	84%	82%	**99%**	91%	95%	93%	88%	82%	**55%**	48%

Table 2.1.7. The Company Has a Procedure for the Board Members to Declare Their Affiliation Is Included in the Company’s Internal Documents

A requirement (stated in the company’s internal documents) for the board members to report their affiliation with other market players and persons was reviewed as a mechanism that would lower the risk of conflict of interests among the board members.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company's internal documents include a requirement for the board members to declare their affiliation	**73%**	69%	59%	58%	48%	44%	**79%**	70%	63%	76%	72%	56%	**55%**	38%

Table 2.1.8 Board-Level Committees

The best governance practice recommends establishing various board-level committees including the audit committee and personnel and remuneration committee. They should review the most important corporate issues and prepare recommendations for the board before the board takes decisions on these issues.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The board has an audit committee	**77%**	69%	51%	41%	32%	23%	**99%**	95%	95%	83%	67%	56%	**72%**	57%
The board has a personnel and remuneration committee	**65%**	55%	33%	27%	23%	19%	**85%**	75%	66%	56%	49%	48%	**69%**	48%

Table 2.1.9A. Regularity of the Personnel/Remuneration Committee Meetings

Regularity of the personnel/remuneration committee meetings can to some extent confirm that it is established not just in order to meet the listing requirements formally. This committee plays an important role in the management oversight, evaluation of the management's performance, and in defining adequate forms and size of management remuneration. The best governance practice recommends at least three committee meetings a year.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The personnel / remuneration committee meets at least three times a year	**51%**	63%	54%	64%	58%	60%	**51%**	65%	52%	74%	57%	58%	**32%**	50%

Table 2.1.9B. Composition of the Personnel and Remuneration Committee

The best governance practice recommends that the personnel/remuneration committee should be either fully independent or include independent and nonexecutive directors. This is necessary for ensuring the proper level of independence of objectivity of this committee.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The committee is either fully independent or includes nonexecutive and independent directors	**36%**	40%	49%	67%	62%	Н/Д	**51%**	52%	58%	73%	68%	Н/Д	**35%**	40%

Table 2.2.1. The Existence of a Collective Executive Body

The best governance practice recommends that the company should establish a collective executive body (managing board, pravlenie) that would handle the most complicated issues of its current operations that require a collective discussion and decision.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has a collective executive body (managing board)	**67%**	65%	58%	60%	60%	62%	**78%**	72%	74%	68%	65%	84%	**76%**	81%

Table 2.2.2. Internal Documents (Other than Bylaws) Regulating Executive Bodies

The existence of an internal document which outlines the meeting procedures and rights and obligations of the executive body members helps to regulate the work of these bodies, thus making them more effective.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has internal documents (other than bylaws) that regulate executive bodies	**79%**	79%	70%	66%	60%	50%	**93%**	89%	86%	85%	75%	24%	**69%**	81%

Table 2.2.3. Mechanisms Reducing the Risk of a Conflict of Interests Among Members of the Company's Executive Bodies

This survey studied whether the company's internal document contains a requirement for the members of its executive body to report their affiliation with other businesses and persons. This requirement was viewed as a mechanism that reduces the risk of a conflict of interests among members of the executive body.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company's internal documents contain a procedure for the members of executive bodies to declare their affiliation	**63%**	58%	57%	46%	31%	29%	**78%**	63%	68%	63%	53%	36%	**48%**	48%

Table 2.2.4. Whether Internal Documents Prescribe Linking of Management Remuneration with the Company's Performance

Linking the top managers' remuneration to the company performance provides them with the necessary motivation and links their interests with the interests of shareholders to some extent.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Internal corporate documents include a requirement about linking the top management remuneration to the performance	**39%**	42%	46%	38%	25%	34%	**55%**	53%	61%	52%	38%	48%	**38%**	38%

Table 2.2.5. Personnel Reserve and Top Management Succession Planning

The existence of top management succession planning helps to ensure the continuity of development and sustainability of the company's business in the long term.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has a personnel reserve and top management succession programs	**32%**	27%	30%	30%	31%	43%	**40%**	31%	33%	39%	42%	56%	**24%**	19%

Table 2.3.1A. Regularity of the Audit Committee Meetings

Regularity of the audit committee meetings can to some extent confirm that it is established not just in order to meet the listing requirements formally. This committee plays an important role in the management oversight, evaluation of the reliability of financial statements, and in analyzing the effectiveness of internal control and risk management systems. The best governance practice recommends at least three committee meetings a year.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The audit committee meets at least three times a year	**55%**	63%	59%	61%	49%	50%	**56%**	65%	61%	67%	42%	43%	**45%**	50%

Table 2.3.1B. Composition of the Audit Committee

The best governance practice recommends that the audit committee should be either fully independent or include independent and nonexecutive directors. This is necessary for ensuring the proper level of independence of objectivity of this committee.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The committee is either fully independent or includes nonexecutive and independent directors	**46%**	46%	58%	69%	55%	67%	**56%**	52%	72%	76%	63%	78%	**48%**	42%

Table 2.3.2. Internal Audit Service in the Company

The best governance practices recommend that a company should establish a separate structural unit to evaluate and improve the system of internal control and ensure its effectiveness.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has an internal audit service	**73%**	67%	47%	49%	50%	61%	**94%**	84%	79%	74%	75%	76%	**59%**	62%

Table 2.3.3. Internal Audit Reporting Lines

In order to ensure objective and independent evaluations by the internal audit service, the best governance practice recommends that this service should report to the board-level audit committee (or the board if the company does not have this committee) in the functional terms, and to the CEO in administrative terms.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The internal audit service reports to the board-level committee (or the board in general if the company does not have the audit committee) in functional terms and to CEO in administrative terms	**64%**	61%	50%	47%	39%	Н/Д	**71%**	70%	63%	63%	60%	Н/Д	**41%**	46%
The internal audit service reports to CEO in the functional and administrative terms	**36%**	39%	50%	53%	61%	Н/Д	**29%**	30%	37%	37%	40%	Н/Д	**59%**	54%

Table 2.3.4. Independence of the Audit Commission Members

According to legislation, members of the company's audit commission cannot take seats on its board of directors and executive bodies. The best governance practice recommends that this commission should not include other employees of the companies either in order to ensure its higher independence.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Members of the audit commission do not take positions in the company's governance bodies and are not its employees	**39%**	33%	35%	32%	25%	16%	**43%**	35%	37%	39%	26%	12%	**62%**	57%

Table 2.4. Position of Corporate Secretary in the Companies

The existence of a corporate secretary is an important aspect of the corporate governance practice in companies. The main goal of corporate secretary is to ensure compliance, by the company's bodies and officers, with the governance procedures established in the legislation and the company's bylaws and other internal documents.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has a position of corporate secretary or its functions are performed by the secretary of the board	**42%**	40%	46%	41%	29%	35%	**55%**	49%	61%	57%	42%	35%	**17%**	19%

Disclosures

Table 3.1.1. Disclosure of RAS-Based Financial Statements

Russian legislation requires the companies to disclose annual accounting statements made in accordance with the Russian Accounting Standards (RAS), including balance sheet, profit & loss statement, annexes to the balance sheet and profit & loss statement, and auditor's report about these statements.

	Sample						Listed companies						State-owned companies	
	2008	2007	2006	2005	2004	2003	**2008**	2007	2006	2005	2004	2003	**2008**	2007
Balance sheet	**98%**	99%	99%	91%	94%	64%	**100%**	100%	100%	91%	98%	92%	**97%**	95%
Profit & Loss Statement	**98%**	99%	98%	91%	92%	61%	**100%**	100%	100%	91%	98%	88%	**97%**	95%
Cash Flow Statement	**93%**	92%	93%	77%	84%	55%	**99%**	96%	97%	82%	91%	80%	**90%**	81%
Auditor's report about statements	**87%**	80%	72%	60%	71%	36%	**93%**	84%	87%	67%	86%	68%	**93%**	81%

Table 3.1.2. Disclosure of IAS / U.S. GAAP-Based Financial Statements

The best governance practices recommend the companies to disclose financial statements based on the International Accounting Standards (IAS/U.S. GAAP). They are more informative for the shareholders, prospective investors and other stakeholders. Another recommendation is to disclose the external auditor's report.

	Sample						Listed companies						State-owned companies	
	2008	2007	2006	2005	2004	2003	**2008**	2007	2006	2005	2004	2003	**2008**	2007
Balance sheet	**69%**	69%	48%	47%	35%	28%	**97%**	96%	82%	82%	72%	72%	**55%**	67%
Profit & Loss Statement	**69%**	69%	48%	47%	34%	28%	**97%**	96%	82%	82%	70%	72%	**55%**	67%
Cash Flow Statement	**68%**	65%	46%	44%	34%	26%	**97%**	96%	82%	81%	67%	72%	**52%**	52%
Auditor's report about statements	**66%**	63%	45%	41%	32%	26%	**96%**	95%	76%	74%	65%	68%	**48%**	52%

Table 3.2.1 Disclosure of Shareholding

The best governance practice recommends such disclosure of shareholding that would help the prospective investors and other stakeholders to have a complete picture of the company's beneficial owners and assess their ability to influence corporate decisions.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Information is disclosed about beneficiary owners that collectively own more than 75% of the voting shares, and the company set a threshold of 5% or less for disclosing information about beneficiaries	**53%**	50%	52%	35%	45%	18%	**39%**	35%	47%	30%	46%	12%	**79%**	76%

Table 3.2.2A. Disclosure of Information About the Board Composition

Russian laws and recommendations of the best governance practice require the companies to disclose detailed information about every member of executive bodies and the board of directors that would help all the relevant persons to evaluate their competency, independence and the ability to perform their duties effectively, as well as the absence of a conflict of interests.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Full name and patronymic	**100%**	98%	100%	97%	99%	100%	**100%**	100%	100%	100%	100%	100%	**100%**	100%
Education	**65%**	65%	75%	80%	66%	50%	**82%**	82%	76%	90%	67%	50%	**62%**	81%
All positions taken by the person in the issuer company in the last 5 years, in the chronological order	**95%**	95%	99%	96%	97%	100%	**100%**	100%	100%	100%	98%	100%	**76%**	90%
All positions taken by the person in other organizations in the last 5 years, in the chronological order	**95%**	96%	99%	96%	96%	100%	**100%**	100%	100%	100%	98%	100%	**83%**	86%
This person's shares in the authorized capital of the company	**92%**	93%	98%	97%	97%	99%	**100%**	100%	100%	100%	98%	99%	**76%**	90%
This person's shares in the authorized capital of the company's subsidiaries and	**89%**	92%	98%	96%	96%	98%	**100%**	100%	100%	100%	100%	98%	**59%**	90%

dependent entities														
Any kinship relations with other persons that have seats in the governance bodies of the issuer company and/or bodies that control its financial and business operations.	**92%**	92%	90%	91%	Н/Д	Н/Д	**100%**	98%	95%	100%	Н/Д	Н/Д	**62%**	86%

Table 3.2.2B. Disclosure of Information About Composition of Executive Bodies

The disclosure of detailed information about every member of executive bodies helps all interested persons to assess his/her competence, independence and ability to perform his/her duties effectively, and to see whether he/she has a conflict of interests as described by the Russian legislation and recommendations of the best governance practices.

	Sample						**Listed companies**						**State-owned companies**	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Full name and patronymic	**100%**	99%	99%	91%	99%	100%	**100%**	100%	100%	83%	100%	100%	**100%**	100%
Education	**68%**	70%	76%	73%	66%	48%	**84%**	86%	76%	67%	68%	48%	**72%**	86%
All positions taken by the person in the issuer company in the last 5 years, in the chronological order	**96%**	98%	99%	89%	97%	100%	**100%**	100%	100%	83%	100%	100%	**83%**	95%
All positions taken by the person in other organizations in the last 5 years, in the chronological order	**97%**	98%	99%	90%	96%	100%	**100%**	100%	100%	83%	100%	100%	**93%**	95%
This person’s shares in the authorized capital of the company	**92%**	93%	98%	91%	96%	99%	**100%**	100%	100%	83%	98%	99%	**76%**	86%
This person’s shares in the authorized capital of the company’s subsidiaries and dependent entities	**89%**	91%	98%	91%	94%	98%	**100%**	100%	100%	83%	98%	98%	**59%**	90%
Any kinship relations with other persons that have seats in the governance bodies of the issuer company and/or bodies that control its financial and business operations.	**91%**	91%	91%	84%	Н/Д	Н/Д	**100%**	98%	95%	81%	Н/Д	Н/Д	**62%**	81%

Table 3.2.3. Disclosure of Remuneration of the Board Members

Disclosure of remuneration of the board members helps the stakeholders to see whether it is consistent with the scope of the company's operations, level of responsibility taken by the board members, and their work load. The best way to achieve this is to disclose remuneration paid to the each member of the board and specify the criteria underlying the size of remuneration in each case.

	Sample						Listed companies						State-owned companies	
	2008	2007	2006	2005	2004	2003	**2008**	2007	2006	2005	2004	2003	**2008**	2007
Information is disclosed about individual remuneration of each board member	**11%**	13%	11%	8%	7%	9%	**16%**	21%	16%	13%	12%	20%	**7%**	5%
Some information is disclosed or total figures are published without individual breakdown	**84%**	81%	84%	86%	77%	80%	**83%**	77%	81%	83%	81%	76%	**83%**	71%
Information about remuneration is not disclosed	**5%**	6%	5%	6%	16%	11%	**1%**	2%	3%	4%	7%	4%	**10%**	24%

Table 3.2.4. Disclosure of Remuneration Paid to the Members of Executive Bodies

Disclosure of information about remuneration paid to the members of a company's executive bodies helps the stakeholders to see whether their remuneration is consistent with the company's scope and effectiveness of operations. The best way to do this is to disclose individual remuneration and specify the criteria that are used for establishing the size of individual remuneration.

	Sample						Listed companies						State-owned companies	
	2008	2007	2006	2005	2004	2003	**2008**	2007	2006	2005	2004	2003	**2008**	2007
Information is disclosed about individual remuneration of each board member	**4%**	3%	7%	5%	6%	9%	**3%**	5%	5%	2%	12%	20%	**3%**	0%
Some information is disclosed or total figures are published without individual breakdown	**69%**	69%	67%	64%	73%	80%	**81%**	72%	81%	83%	74%	76%	**62%**	67%
Information about remuneration is not disclosed	**27%**	28%	26%	31%	16%	11%	**16%**	23%	14%	15%	14%	4%	**35%**	33%

Table 3.2.5. Disclosure of the Company's Development Strategy

Information about the company's development strategy is a part of nonfinancial information about corporate operations. Shareholders, investors and other stakeholders need to know whether the company has the development strategy and about its medium-term and long-term goals and objectives. They need it in order to see whether this strategy is consistent with the general market trends and assess the growth prospects of the company.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The corporate website posts information about the company's development strategy	**60%**	55%	52%	39%	71%	51%	**79%**	70%	71%	57%	77%	80%	**69%**	67%

Table 3.2.6. Disclosure of the Board Decisions

The best governance practice is to disclose all decisions taken by the board (they do not constitute confidential information) to all stakeholders in the most prompt, cost-effective and equal way. In this context the posting of information about the board decisions in a separate section of the corporate website (in addition to the mandatory disclosure of this information in accordance with the statutory requirements) is viewed as a channel of information sharing which ensures the most equitable and sophisticated way of access to such information which does not incur excessive costs.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The corporate website posts minutes of the board meetings or statements from them	**19%**	18%	25%	25%	42%	41%	**27%**	23%	27%	22%	44%	48%	**17%**	20%

Table 3.2.7. Disclosure of Corporate Governance Practices

Shareholders, investors and other stakeholders should know how the system of a company's corporate governance is built so that they can make comprehensive assessment of their investment risks. They should also know how their interests are taken into account in the company's work. The corporate website is the best channel of supplying this information to them.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The corporate website discloses the company's corporate governance practices	**44%**	47%	48%	41%	53%	46%	**63%**	68%	76%	72%	70%	80%	**28%**	43%

Table 3.3.1. Regulation on Disclosures

The company's information policy will become more effective if the company adopts a document that would outline the principles of, and approaches to, the disclosure of information about the company including a list of information items and the procedure of providing it to all stakeholders.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
В компании утверждено положение об информационной политике	**57%**	55%	48%	47%	34%	Н/Д	**81%**	75%	71%	70%	61%	Н/Д	**41%**	43%

Table 3.3.2. Annual Report Posted on the Corporate Website and Quality of Report

A company's annual report is an important channel of communication with the shareholders, investors and other stakeholders. A company should take efforts so that its annual report would not only meet the statutory requirements but contain such detailed, updated and reliable information about the performance and various aspects of the company's operations that is necessary for the shareholders, investors and other stakeholders.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Annual report is posted on the corporate website	**99%**	97%	93%	83%	77%	Н/Д	**100%**	98%	95%	94%	84%	Н/Д	**100%**	100%
Level of compliance with the statutory requirements to the contents of annual report.	**60%**	56%	53%	49%	58%	Н/Д	**67%**	64%	56%	58%	60%	Н/Д	**53%**	54%

Table 3.3.3. Quality of Corporate Website

Corporate website is one of the most accessible and convenient sources of information about a company. Therefore, the quality of its contents becomes an important factor that characterizes the level of the company's transparency.

According to the law and recommendations of the best governance practice, the corporate website should disclose the following information about the company: bylaws and internal documents that regulate the work of its governance and control bodies; composition of the board and executive bodies; the structure of shareholding equity; information about the practice of corporate governance and the company's development strategy; decisions of the board and the general meeting of shareholders; and annual reports.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
Information disclosed by the company on average as a share of the full volume prescribed by the abovementioned list	**70%**	69%	68%	61%	77%	70%	**80%**	79%	81%	72%	82%	84%	**67%**	66%

Table 3.3.4. Equal Accessibility of Information to Russian and Foreign Investors

The best governance practices recommend that a company should follow the principle of equal accessibility when it discloses information about its operations. In this respect a company should translate its disclosed material information into the main languages spoken by the stakeholders. As far as the Russian companies are concerned, this principle means that material information disclosed in the Russian language should be translated into English, and vice versa.

	Sample						**Listed companies**						**State-owned companies**	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company follows the principle of mirroring information in the Russian and English versions of its website	**47%**	46%	37%	28%	16%	16%	**70%**	60%	58%	54%	33%	44%	**38%**	48%

Corporate Social Responsibility

Table 4.1. CSR Projects for the Company Employees and Their Families

Implementation of CSR projects for employees and their family members helps a company to ensure employee loyalty, lower the staff turnover rate, reduce the costs of recruiting and training of new employees and time losses caused by employee sickness (including sickness of children) and improves the overall emotional climate in the company. This, in turn, would benefit labor productivity.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has completed or current CSR projects	**77%**	77%	79%	80%	71%	70%	**85%**	82%	86%	81%	74%	76%	**69%**	62%

Table 4.2. CSR Projects for the Communities Where the Companies Operate

CSR projects for the community where the company operates help to ensure the community's loyalty to the company.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has completed or current CSR projects	**67%**	75%	65%	60%	53%	53%	**78%**	86%	92%	78%	70%	56%	**48%**	62%

Table 4.3. CSR Projects for the Company's Counterparties

CSR projects for a company's counterparties help to ensure loyalty of its customers and suppliers, establish longer-term relations with them, and lower the risk of supply volatility and sudden plummeting of demand for the company's goods and services.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has completed or current CSR projects	**31%**	32%	26%	18%	11%	17%	**37%**	42%	32%	11%	18%	24%	**34%**	48%

Table 4.4. The Existence of Document Describing CSR Principles

The effectiveness of corporate social responsibility largely depends on how CSR policy is described in an internal document which outlines the goals and objectives of the company's social policy, key implementation lines, governance bodies and officials that are in charge of implementation, and (possibly) the tools for measuring its performance.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has approved a document on corporate social responsibility	**27%**	23%	8%	9%	6%	Н/Д	**34%**	23%	11%	9%	6%	Н/Д	**24%**	29%

Table 4.5. The Existence of a Code of Corporate Ethics

A code of business ethics should serve as the basis for ethical behavior of the company's employees and management and a factor of its sustainable development and favorable image.

	Sample						Listed companies						State-owned companies	
	2009	2008	2007	2006	2005	2004	**2009**	2008	2007	2006	2005	2004	**2009**	2008
The company has approved a document on rules of corporate ethics	**27%**	25%	15%	15%	8%	9%	**39%**	34%	26%	24%	12%	16%	**21%**	24%

NES / Review of Factors Influencing the Quality of Corporate Governance

Persistent efforts by the Russian Institute of Directors and other organizations that evaluate the quality of corporate governance in the Russian companies have resulted in major improvements of the governance data in Russia. Researchers now can have access to detailed information about different aspects of corporate governance in a large sample of leading Russian corporations for several years. This helps to make a fairly accurate analysis of factors that influence the quality of corporate governance. This is what this survey attempted to do. We look at the impact of such factors as industry, ownership structure and the size of a given company. Besides, we compare different measures of governance quality and describe how the quality of corporate governance evolved in 2004-2009.

The review findings suggest that the quality of corporate governance in a company is largely driven by its size and industry. Taking these factors into account, ownership structure does not in any way affect either the quality or elements of corporate governance. The only exception is higher disclosure of ownership by state-owned companies.

Different Quality Measurements for Corporate Governance: Comparison

The survey looks at two best known measures that reflect the quality of corporate governance in the Russian companies. Information from the National Corporate Governance Score (NCGS) which RID-Expert RA assigns is used as the primary measure. It is based on evaluation of corporate governance in four areas: (1) implementation of shareholder rights; (2) governance and control bodies; (3) disclosures; and (4) corporate social responsibility[9]. The sample in this survey included 78 companies to which scores were assigned, with the largest number of observations over time.

Standard & Poor's Transparency & Disclosure Index (T&D) is used as an additional measure. It evaluates the disclosure of information about a company in three components: (1) ownership structure and investor relations; (2) financial and operational information: and (3) board and management structure and process. The final rating was the median of these three components[10]. The sample included 130 companies assessed by S&P.

Despite substantial differences in the methodologies of NCGS and T&D, both measures reflect the quality of corporate governance in the Russian companies albeit they focus on its different aspects. Table 1 shows the results of regressions that compare these two measures of corporate governance. The results that do not include a company's fixed effects[11] (first column) suggest that the alternative measures (NCGS and T&D) closely correlate in the case of variation in the level of corporate governance between companies (i.e., companies with a higher NCGS have a higher T&D index, on average). The results of regressions that include fixed effects (second column) show that these measures similarly reflect the average level of corporate governance in each company but also changes in the quality of corporate governance over time in individual companies (i.e., companies that report better NCGS are also demonstrating higher S&P indices, on average).

In general, the results suggest that both measures could be viewed as sufficiently good indicators of the governance quality. They adequately reflect the situation in a company, and are not driven solely by the specificities of methodology used for computing any given indicator.[12]

[9] Detailed information about the National Corporate Governance Score is available on the corporate websites of the Russian Institute of Directors (http://www.rid.ru/) and Expert RA rating agency (http://www.raexpert.ru/).

[10] Detailed information about T&D studies is available on Standard & Poor's website (http://www.standardandpoors.ru/).

[11] Fixed effects take into account all corporate parameters that do not change over time.

[12] An analysis of correlation between different components of RID's index and T&D index of S&P shows the following: if a company's fixed effects are not included (i.e., when values of each component are compared for

Table 1. Comparison Between Different Measures of Corporate Governance

	Overall quality of corporate governance - NCGS	
	0.040***	0.015*
Overall transparency & disclosure level, S&P	[0.013]	[0.008]
Fixed effects of a company	Нет	Да
Fixed effects of a year	Да	Да
Number of observations	150	150
R^2	0.49	0.87

Data for 2004-2009. The first column shows the results of between-effects model. Standard errors of the regression coefficients are given in square brackets. In the second column, errors are clusterized at the company level. *-coefficient is meaningful at 10%; **- at 5%; ***- at 1%.

Changes of Corporate Governance Over Time

The average quality of corporate governance under NCGS and the overall transparency level measured by S&P for the sample has been steadily improving for almost six years. However, the number of companies in the sample changes over time. This is why changes of median indexes might be driven not by changes of corporate governance in the companies but by inclusion of new companies in the indices; the average level of corporate governance in these new companies differs from the average level of corporate governance in the companies that were included in the sample earlier. In order to eliminate the sample change effect, this section will describe only the results for the sub-sample of companies for which data are available for all six years.

Figure 1 shows evolution of the corporate governance index from 2004 through 2009. The results suggest that that the overall level of corporate governance rose substantially in 2004-2007 but remained almost unchanged in 2008 and 2009. However, not all components of the index demonstrated positive dynamics (see Fig. 2). Only those components that are related to disclosures and corporate social responsibility have demonstrated sustainable growth during these six years in succession. Implementation of shareholder rights remained almost unchanged, and positive developments in the companies' governance and control bodies could be seen in 2005 alone.

Positive changes in the "Disclosures" component are supported by information from T&D (see Fig. 3) which also demonstrated a positive trend in this period. A review of evolution of individual components shows that disclosures improved in the first place in the disclosure of ownership structure, shareholder rights, and financial and operational information. Conversely, the transparency of issues related to the board and management has been declining.

Corporate governance broadly improved in 2004-2009, particularly with respect to disclosures and corporate social responsibility. No positive changes were observed in the issues related to implementation of shareholder rights, while issues pertaining to the work of governance and control bodies demonstrated improvements only early in the six-year period.

different companies), correlation is meaningful for all components except "Implementation of Shareholder Rights". If fixed effects are taken into account (i.e. when changes in the values of measures for one company are compared), correlation is not meaningful for any component.

Figure 1. Evolution of the Average Quality of Corporate Governance - NCGS

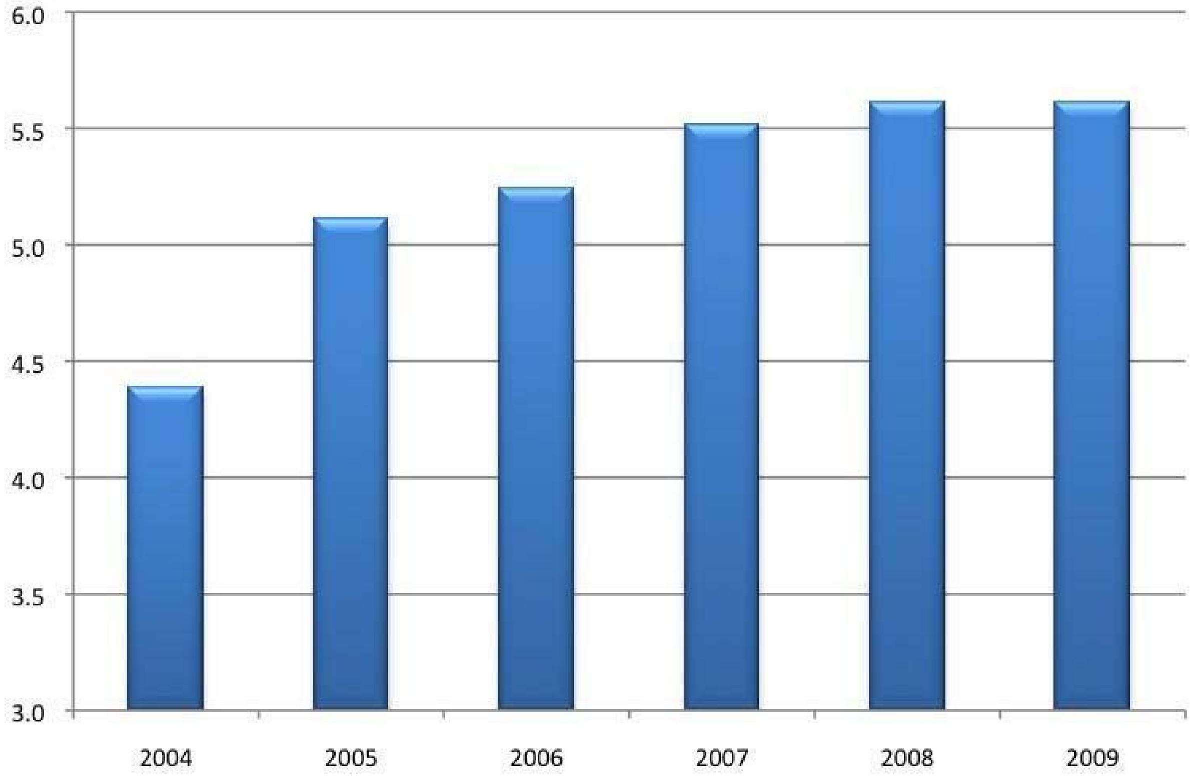


Figure 1 shows changes in the average quality of corporate governance over time for the sub-sample of companies for which observations are available for all years (30 companies).

Figure 2. Evolution of Corporate Governance Components - NCGS

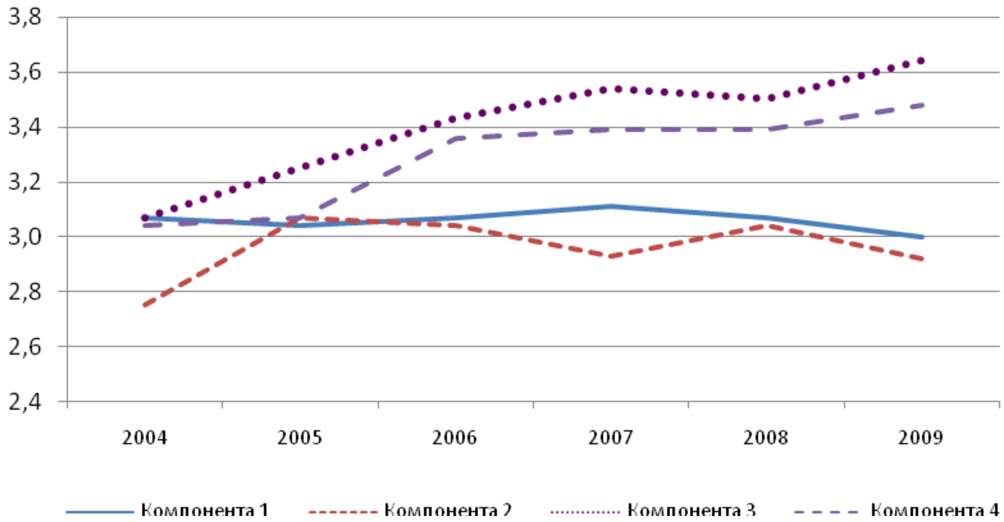


Figure 2 shows changes of the average level of governance components over time for the sub-sample of companies for which observations are available for all years (30 companies). Component 1 – Implementation of Shareholder Rights; Component 2 – Governance and Control Bodies; Component 3 – Disclosures; Component 4 – Corporate Social Responsibility.

Figure 3. Evolution of Transparency as Measured by S&P

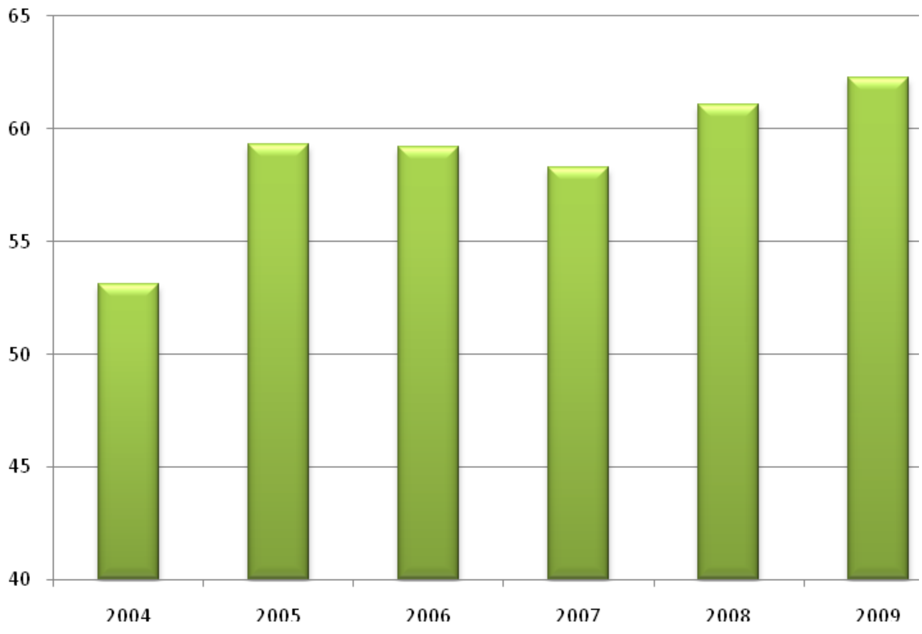


Figure 3 shows changes of the average transparency level for the sub-sample of companies for which observations are available for all years (29 companies). The confidence interval of 95% is given for each value.

Figure 4. Evolution of Various Components Included in the S&P Transparency Measure

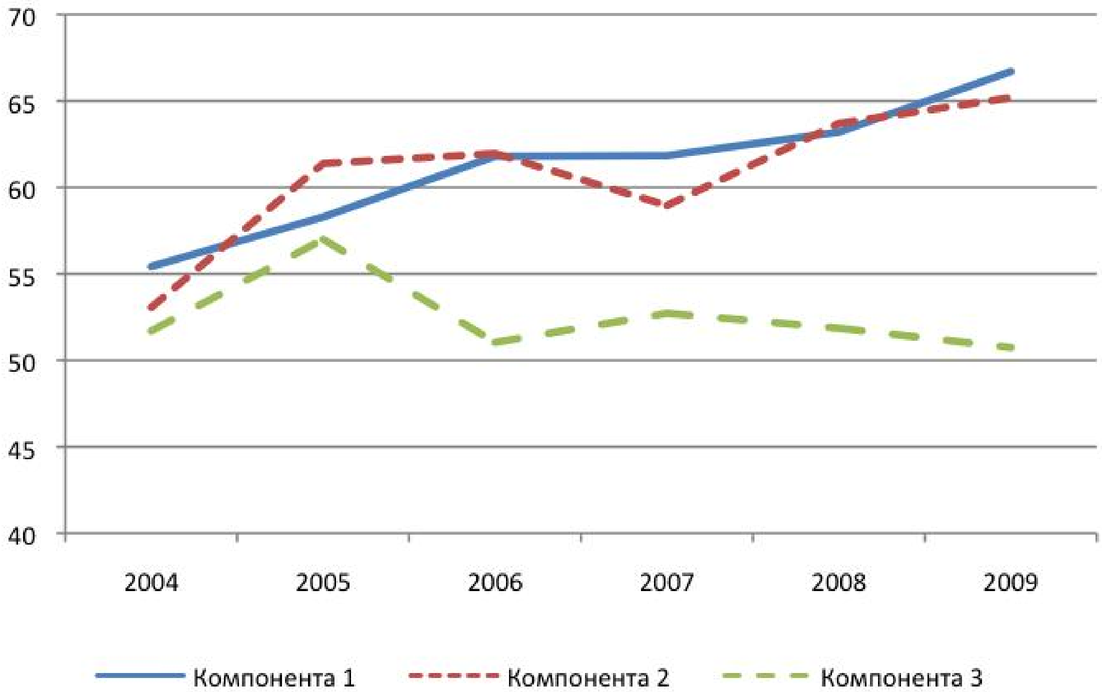


Figure 4 shows changes of the average levels of various transparency components for the sub-sample of companies for which observations are available for all years (29 companies). The confidence interval of 95% is given for each value. Component 1 – Ownership structure and shareholder rights; Component 2 – Financial and operational information; Component 3 – Board and management process.

Corporate Governance in the Sectors of the Russian Economy

The quality of corporate governance is different in different sectors. If we are to compare the quality of governance in different sectors adequately, we should take into account such factors as general changes in the quality of corporate governance over time; size of companies; and their ownership structure (see the next section). Multi-variable regressions were used for assessing the impact of industry so that these factors could be taken into account. Besides industry-specific indicators, these regressions included year indicators (we thus embraced all factors of a given year that were common for all companies), ownership structures and logarithm of the company's annual revenues that was used for measuring the size of this company.[13]

Table 2 shows information about the impact of one of 11 sectors represented in the sample on the quality of corporate governance. The impact of sectors is assessed with regard of a given company's ownership structure and size. Therefore, the ratios in the Table should be interpreted as a mark-up to NCGS. The companies of this sector have this mark-up as compared to the companies that operate in other sectors but have the same size and ownership structure. Standard errors in the table help to assess how accurately these coefficients are measured.

The results show that "Telecommunications and IT" and "Management and financial services" demonstrate better quality of corporate governance. At the same time, telecom operators demonstrate higher transparency. The poorest performers in terms of corporate governance and transparency figures are such sectors as machine engineering, food industry and retail trade. Besides, machine engineering and retail trade demonstrate poor transparency. It should be noted, however, that accuracy of these assessments is constrained by a relatively small size of the sample for each sector. This is why the difference between sectors becomes statistically relevant only for the purposes of comparison between the best and worst performing sectors.

[13] The results of analysis remain unchanged if the size of assets is used instead of annual revenues.

A review of governance components shows that companies in the “Management and financial services” sector are better performers in all components except “Governance and Control Bodies” where telecom operators take the lead. The oil&gas sector demonstrates a high level of shareholder rights but this good performance is offset by the poor quality in the “Governance and Control Bodies” component. Machine engineering demonstrates the worst results in all components except “Disclosures” where chemical and petrochemical sector is the poorest performer.

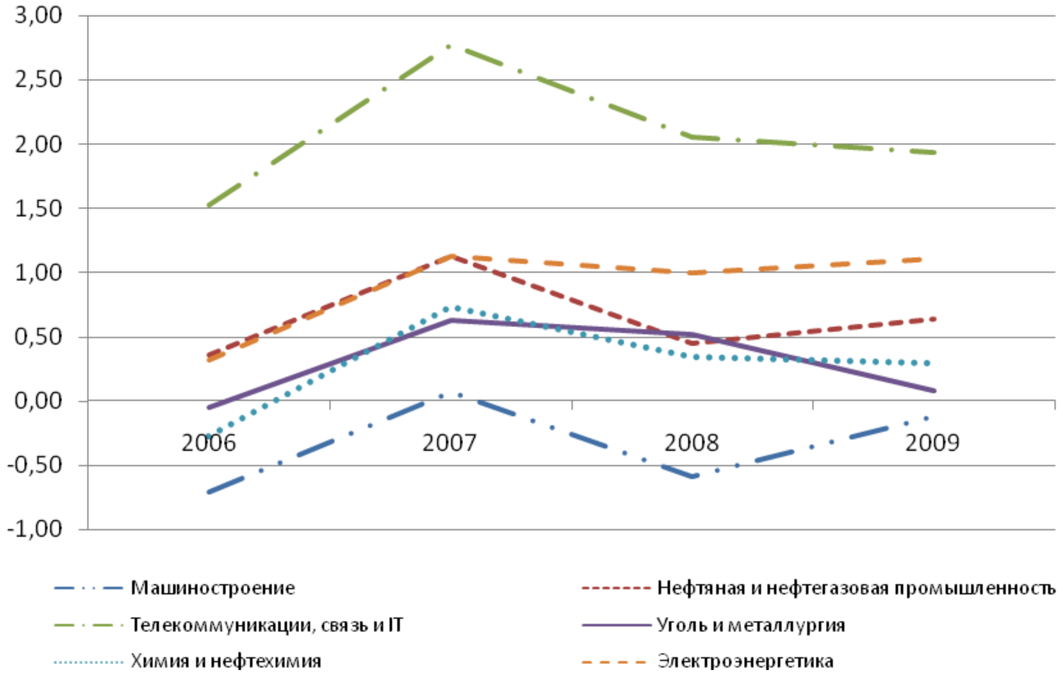
Evolution of corporate governance in 2004-2009 can be assessed adequately only for six sectors. This is because the sample in each individual sector contains a limited number of observations. The results of analysis are shown in Fig. 5. All six sectors demonstrated substantial improvements of corporate governance in 2007. Yet, its quality either deteriorated or stagnated in all sectors over the two crisis years. The most visible deterioration was reported by telecom operators. Power engineering was the only sector where the quality of corporate governance in 2009 remained at the same level as in 2007.

Table 2. Sector Effect in the Quality of Corporate Governance

	Overall quality of corporate governance – NCGS	Corporate governance components				Overall transparency - S&P index
		Implementation of shareholder rights	Governance and control bodies	Disclosures	Corporate social responsibility	
Machine engineering	-1.06	2.61	0.95	2.11	1.57	-20.49
	[0.57]	[0.26]	[0.26]	[0.27]	[0.26]	[11.26]
Oil and gas	-0.29	3.05	1.07	2.23	1.94	-20.33
	[0.71]	[0.34]	[0.31]	[0.34]	[0.32]	[12.16]
Food	-0.89	2.75	1.10	2.06	1.66	-4.96
	[0.61]	[0.27]	[0.29]	[0.29]	[0.27]	[10.62]
Retail trade	-0.77	2.72	1.07	2.07	1.83	-17.15
	[0.58]	[0.27]	[0.29]	[0.28]	[0.27]	[10.11]
Construction	0.74	2.77	1.64	2.60	1.97	-1.49
	[0.66]	[0.24]	[0.32]	[0.37]	[0.28]	[9.75]
Telecommunications and IT	1.32	2.85	1.83	2.75	2.17	2.08
	[0.61]	[0.28]	[0.28]	[0.32]	[0.30]	[10.35]
Transport	-0.50	2.97	1.01	2.21	1.76	-12.20
	[0.58]	[0.27]	[0.28]	[0.27]	[0.27]	[10.67]
Coal and metallurgy	-0.59	2.82	0.96	2.25	2.00	-6.03
	[0.59]	[0.27]	[0.27]	[0.29]	[0.27]	[10.88]
Management and financial services	2.11	3.45	1.54	3.53	2.56	-7.10
	[0.82]	[0.42]	[0.26]	[0.36]	[0.31]	[11.82]
Chemistry and petroleum chemistry	-0.64	2.70	1.11	2.01	1.85	-10.56
	[0.57]	[0.28]	[0.26]	[0.27]	[0.27]	[9.90]
Power engineering	0.12	2.96	1.26	2.35	1.77	-14.99
	[0.56]	[0.26]	[0.26]	[0.28]	[0.27]	[10.27]

The table gives estimated coefficients for sector indicators from the regression of the respective measures to indicators of sector, ownership structure and years, and logarithm of annual revenues. Standard errors from the regression coefficients are given in square brackets.

Figure 5. Evolution of Corporate Governance Components – NCGS, by Sector



The figure shows estimated coefficients with sector indicators from the regression of the average corporate governance score by the indicators of sector, ownership structure and logarithms of revenues. The regressions were assessed separately for each year.

Ownership Structure and Quality of Corporate Governance

An important issue is how the ownership structure reflects on the quality of corporate governance. In order to study this relation, we broke the companies into four groups in terms of ownership structure: (i) companies in which the State owns at least a blocking stake (more than 25% but less than 50% of common stock); (ii) companies where the State owns the controlling stake (over 50% of common stock); (iii) companies with a private owner that owns more than 75% of common stock; and (iv) companies where the private owner has the majority stake (more than 50% but less than 75% of common stock).[14] The remaining companies were put in the baseline comparison group.

The companies' size and industry in which they operate are important for the analysis because these factors are critical for measuring the quality of corporate governance. All other things being equal, high quality of governance is more important for large companies. Accordingly, we can expect that large companies will be better governed. Furthermore, the size of companies differs substantially depending on the ownership structure (see Table 3). Companies where the State owns more than 50% of shares are much larger than other companies in the sample, while companies where the State owns 25-50% are the smallest in size.

[14] Different cut-off thresholds were taken for private owners and the State in order to ensure a sufficient number of observations in each group.

Table 3. Size of Companies With Different Ownership Structures.

	Annual revenues for 2008 ($ thousands)	Assets in 2008 ($ thousands)
State owns more than50%	11,303,099	23,104,726
State owns 25%-50%	2,672,838	2,682,063
Largest private shareholder owns more than 75%	4,727,695	5,067,081
Largest private shareholder owns 50%-75%	7,050,744	6,768,503

The sample includes all 78 companies for which the quality measure of corporate governance (NCGS) is available.

Ownership structures are also different in different sectors (see Table 4). Thus, many transport and power engineering companies in the sample were state-owned ones, while the food industry, retail trade and construction did not have any government-owned company.

Table 4. Ownership Structure of Companies in Different Sectors (% of companies in the given sector)

	State owns >50%	State owns 25%-50%	Largest private shareholder owns >75%	Largest private shareholder owns 50%-75%
Machine engineering	33%	0%	17%	17%
Oil and gas	43%	14%	0%	29%
Food	0%	0%	40%	40%
Retail trade	0%	0%	0%	100 %
Construction	0%	0%	50%	50%
Telecommunications and IT	43%	14%	0%	43%
Transport	50%	33%	0%	33%
Coal and metallurgy	0%	0%	50%	31%
Management and financial services	0%	33%	0%	33%
Chemistry and petroleum chemistry	25%	0%	13%	50%
Power engineering	67%	22%	0%	11%

The sample includes all 78 companies for which the quality measure of corporate governance (NCGS) is available.

Table 5 shows the relationship between ownership structure and the quality of corporate governance for cases where the companies' size and industry are and are not taken into account. The results that do not take the size and industry into account (column 1 in Table 5) suggest that government-owned companies have much better corporate governance as compared to all other companies. However, differences among companies with different ownership structure become much smaller and statistically irrelevant (column 2 in Table 5) if we take the size of companies into account. Differences become even smaller if the companies' industry is taken into account (column 3 in Table 5). Unlike ownership structure, the size of a company does make an important impact on the quality of corporate governance: an increase of annual sales by 10% pushes the corporate governance index up by 0.3 p.p.[15]. Thus, the results suggest that the size of a company and the industry where it operates are the main drivers for the quality of corporate governance. Conversely, ownership structure does not make any significant impact.

[15] The size of effect remains the same if assets are used instead of annual revenues as proxy for the company's size.

Table 5. Relationship Between the Quality of Corporate Governance (NCGS) and Ownership Structure of Companies

	Overall quality of corporate governance			Components of corporate governance practice							
				Implementation of shareholder rights		Governance and control bodies		Disclosures		Corporate social responsibility	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
State owns more than50%	0.86***	0.36	0.12	0.03	-0.04	0.28***	-0.01	0.38***	0.29***	0.11	0.01
	[0.22]	[0.22]	[0.25]	[0.08]	[0.09]	[0.09]	[0.11]	[0.10]	[0.10]	[0.08]	[0.10]
State owns 25%-50%	-0.07	0.02	-0.38	0.07	-0.10	-0.02	-0.07	-0.11	-0.20	0.03	0.05
	[0.24]	[0.19]	[0.23]	[0.08]	[0.10]	[0.12]	[0.11]	[0.08]	[0.12]	[0.11]	[0.13]
Largest private shareholder owns more than75%	0.21	-0.14	0.10	-0.03	0.00	0.10	0.07	-0.07	-0.05	0.19	0.06
	[0.28]	[0.27]	[0.26]	[0.09]	[0.08]	[0.10]	[0.11]	[0.11]	[0.10]	[0.12]	[0.13]
Largest private shareholder owns 50%-75%	0.35*	0.08	0.03	0.08	0.07	0.12	-0.02	0.01	-0.02	0.05	-0.07
	[0.20]	[0.17]	[0.18]	[0.08]	[0.07]	[0.08]	[0.08]	[0.08]	[0.07]	[0.08]	[0.08]
Logarithm of revenues		0.34***	0.32***		0.01		0.11***		0.05**		0.08***
		[0.04]	[0.04]		[0.02]		[0.02]		[0.02]		[0.02]
Fixed effects of industry	No	Yes	Yes	No	Yes	No	Yes	No	Yes	No	Yes
Fixed effects of the year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	350	350	350	350	350	350	350	350	350	350	350
R-square	0.92	0.94	0.96	0.98	0.98	0.96	0.97	0.97	0.98	0.97	0.98

Standard errors of the regression coefficients are given in the square brackets. *-coefficient is meaningful at 10%; **- at 5%; ***- at 1%.

A more detailed analysis of the governance components suggests the following conclusion: even if the company's size is not taken into account, ownership structure is not related to implementation of shareholder rights and corporate social responsibility. State-owned companies have better-performing governance and control bodies, but this effect becomes insignificant after the company's size is taken into account. The only component where state-owned companies outperform companies with other ownership structures (even if the size is taken into account) is "Disclosures." State-owned companies have higher scores for disclosure because they publish more information about their ownership structure. This result is also confirmed by the analysis of the S&P transparency index (see Table 6). After a company's size is taken into account, state-owned entities compare favorably in the disclosure of their owners, while they are only slightly better in the disclosure of information about management.

In general, the size and industry of a company are the main factors that have an impact on the overall quality of corporate governance, while ownership structure is not important. Disclosure of information is the only component where ownership structure makes a major impact. State-owned companies have higher scores in this component because they disclose more information about their owners.

Table 6. Relationship Between Transparency Level (S&P) and Structure of Ownership of Companies

	Overall transparency level			Components of the transparency level					
				Ownership structure and investor relations		Financial and operational information		Board and management process	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
State owns more than 50%	9.80***	8.44***	2.40	18.07***	7.35**	2.86	-2.05	13.22***	4.92*
	[2.66]	[2.83]	[3.00]	[2.47]	[2.93]	[3.36]	[3.79]	[2.66]	[2.72]
State owns 25%-50%	-1.45	-1.14	-0.21	3.52	2.95	-6.08*	-2.32	1.91	0.22
	[2.65]	[2.78]	[2.98]	[2.49]	[2.82]	[3.27]	[3.71]	[2.81]	[2.96]
Largest private shareholder owns more than 75%	5.04*	3.07	-2.76	12.67***	3.14	1.11	-7.21*	3.83	-0.81
	[2.75]	[2.92]	[3.14]	[2.72]	[3.42]	[3.56]	[3.75]	[2.69]	[3.03]
Largest private shareholder owns 50%-75%	8.41***	7.97***	1.56	13.83***	4.83*	4.88	-0.90	9.14***	2.83
	[2.59]	[2.67]	[2.64]	[2.54]	[2.71]	[3.29]	[3.24]	[2.44]	[2.53]
Logarithm of revenues		2.00***	3.93***		5.34***		3.89***		2.35***
		[0.50]	[0.71]		[0.78]		[0.90]		[0.74]
Fixed effects of industry	No	Yes	Yes	No	Yes	No	Yes	No	Yes
Fixed effects of the year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	322	322	322	322	322	322	322	322	322
R-square	0.94	0.94	0.96	0.93	0.95	0.92	0.95	0.93	0.95

Standard errors of the regression coefficients are given in the square brackets. *-coefficient is meaningful at 10%; **- at 5%; ***- at 1%.

Another important issue is to compare how the quality of corporate governance evolves in companies with different ownership structures. Figure 6 shows changes in the quality of corporate governance in 2006-2009 depending on the ownership structure. Before the crisis began in 2006, corporate governance was at almost the same level in all companies. But it began to deteriorate fairly quickly already in 2007 in the companies where the largest private investor owns 50-70% of equity. Corporate governance improved in 2008 in all companies except those where private investor holds more than 75% of shares, yet the quality of governance improved significantly in all types of companies in 2009.

Figure 6. Changes in the Quality of Corporate Governance (NCGS) Over Time Depending on Ownership Structure

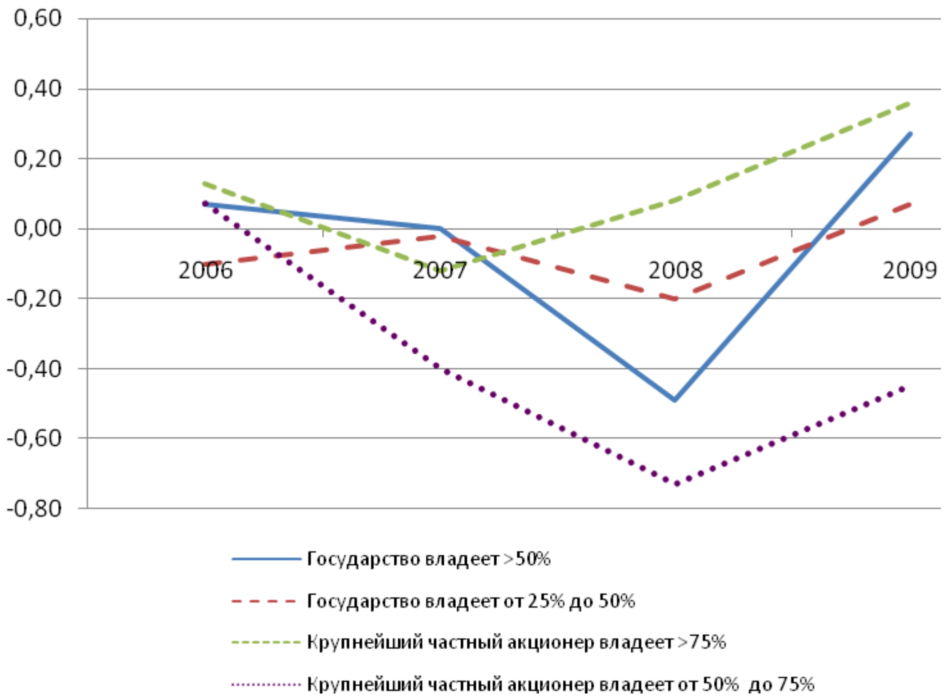


Figure 7 shows estimated coefficients for ownership structure indicators from the regression of the median value of NCGS by indicators of industry, ownership structure and revenue logarithm. Interpretation of these coefficients is similar to those in Table 2. Regressions were measured for each year separately.

Figure 7 shows how governance components changed over time in the companies with different ownership structures. State-owned companies demonstrated sustainable positive developments in the disclosures only. The companies where the State owns 25-50% reported some positive changes only in the protection of shareholder rights while the quality of other components deteriorated. In the companies where private investor owns more than 75% of equity, corporate governance improved in the “Disclosures” and “Protection of Shareholder Rights,” with no major changes in other components. Positive dynamics was observed only in the protection of shareholder rights in the companies where the largest private investor holds 50-75% of equity.

Figure 7. Changes in the Quality of Corporate Governance (NCGS) Over Time Depending on Ownership Structure

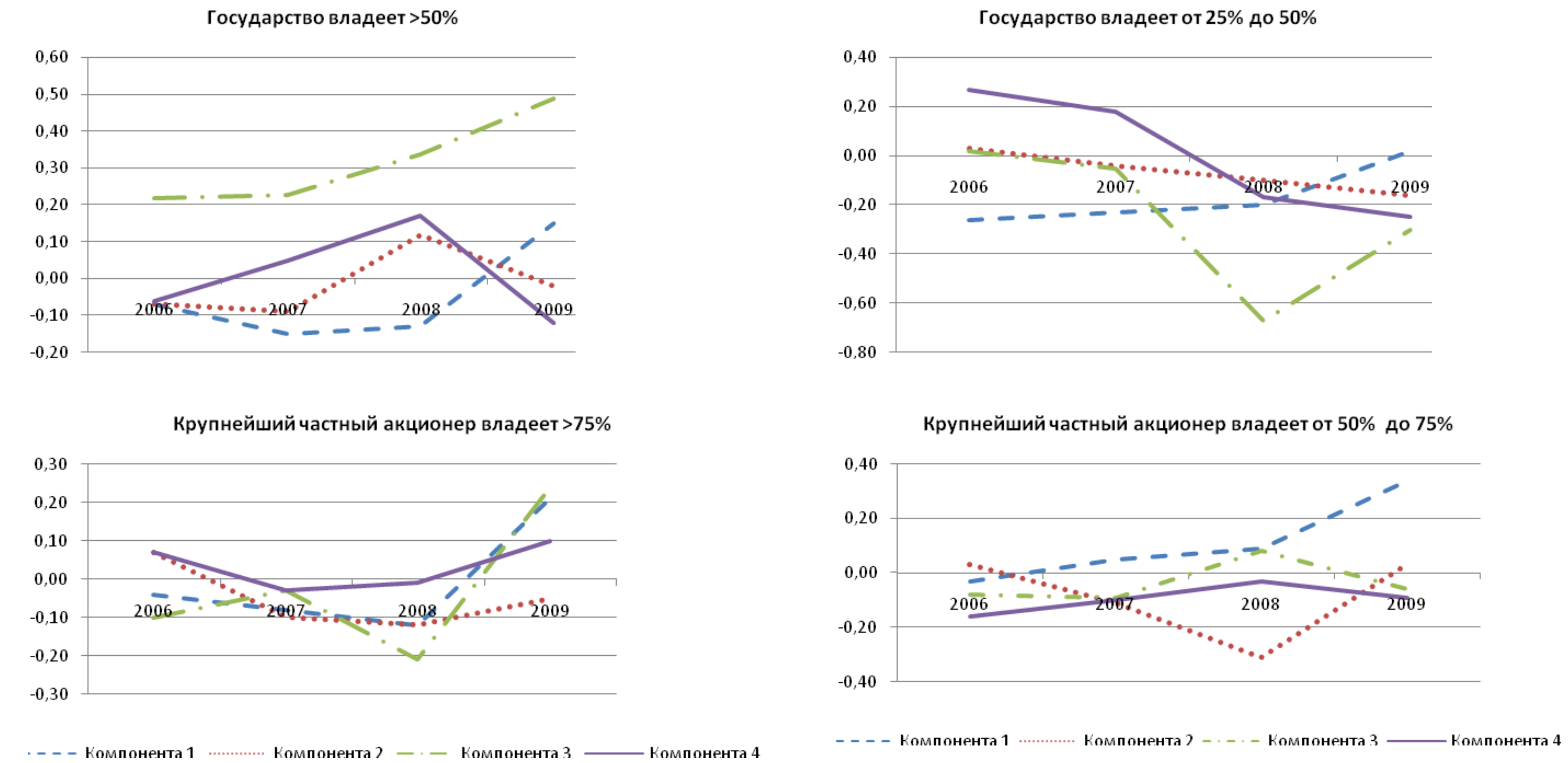


Figure 7 shows estimated coefficients for ownership structure indicators from the regression of the median value of NCGS by indicators of industry, ownership structure and revenue logarithm. Interpretation of these coefficients is similar to those in Table 2. Regressions were measured for each year separately. Component 1 – implementation of shareholder rights; Component 2 – governance and control bodies; Component 3 – disclosures; Component 4 – corporate social responsibility.

Conclusion

The survey studied changes in the quality of corporate governance in large Russian companies in 2004-2009 and looked into factors that influence the quality of corporate governance.

In general, the quality of corporate governance improved during this period, particularly with respect to disclosure of information about the companies and corporate social responsibility. No major changes were observed in implementation of shareholder rights and in the process of governance and control bodies. Transparency has been improving in issues pertaining to the companies' ownership structure and financial and operational information. At the same time, transparency of issues related to the board of directors and management teams remained almost unchanged.

The size of a company made the strongest impact on the quality of corporate governance because larger companies are more interested in maintaining sound governance practices. Industry also plays an important role in measuring the quality of corporate governance. In terms of this quality, the best performers were such industries as "Telecommunications and IT" and "Management and financial services," while machine engineering demonstrated the worst performance.

In cases where the companies' size and industry is taken into account, ownership structure does not make any impact on the quality of corporate governance either in general or in any given component. State-owned companies are an exception, because they demonstrate more detailed disclosure of their ownership structure.