

Doing the right thing

Anti-bribery and corruption compliance research in Russia – 2015

December 2015



Foreword



We are pleased to present the first Anti-Bribery and Corruption Index (ABCI) measuring the compliance profile of corporate Russia.

Anti-bribery and corruption compliance is of increasing significance both domestically within Russia and abroad. PwC's research illustrates how Russia's top companies have responded to these requirements by comparing individual companies' public compliance profiles to Russian and international anti-corruption best practices.

In our research, we have analysed corporate attitudes among and the level of transparency of the leading 125 Russian companies across the following industries: telecommunications, retail and consumer, financial services, automotive, energy and utilities, mining and metals, and pharmaceuticals.

Specifically, we reviewed companies' websites to identify and analyse the compliance-related information that they disclose online. Based on relevant Russian and foreign anti-corruption legislation, we then developed criteria and analysed performance within the following parameters: corporate hotline; compliance-related message from top management; in-house compliance function; compliance risk assessment and compliance policies and procedures.

We also searched for any negative publicity or news coverage related to bribery and corruption cases in which the subject companies may have been implicated, relying exclusively on reputable, trustworthy media sources.

The results of our research show that the ABCI score for the largest Russian companies is 63%.

The ABCI also indicates ways in which companies can improve their compliance programmes. First of all, senior management must be committed to introducing and maintaining a robust compliance programme. Then, one of the best practical ways to enhance a corporate compliance system is to apply due diligence procedures for all entities that interact with the organisation, namely suppliers, customers, agents and distributors. And, last but not least, automation is the way forward for compliance: from risk assessments and due diligence to detecting and responding to incidents, market-leading companies rely on data analytics and automation to boost their compliance profile.

As this is the first edition of the ABCI, we plan to update our research periodically, providing up-to-date information about compliance profiles and analysing recent trends.

Best regards,

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Highlights of our survey

Anti-bribery and corruption compliance is gaining in significance both domestically and internationally. PwC's research illustrates how Russia's leading companies have met compliance requirements by comparing individual companies' public compliance profiles against Russian and international anti-corruption best practices.

Highlights:

63%

63% is the ABCI score for the top 125 Russian companies.

76%

The ABCI varies significantly across industries with telecoms achieving the highest ABCI score of 76%.

51%

The automotive sector fared worst with an ABCI score of only 51%, and there is a huge range in the individual company scores within this industry grouping.

The most common areas for improvement include automation of compliance processes through more sophisticated use of data analytics.

The ABCI score of Russia's top companies is 63%

Only recently has the Russian Federation adopted regulations and enacted laws to begin actively tackling the problem of bribery and corruption as compared, for example, to the United States, which enacted the FCPA nearly 40 years ago in 1977.

Indeed, in recent years we've seen some major developments in the fight against corruption in Russia. The Russian Government has now placed tackling the problem of bribery and corruption squarely on the agenda by, among other things, introducing several legislative initiatives aimed at adopting and applying international best practices. Such

recent developments include legislative amendments requiring all organisations to implement anti-corruption measures¹, as well as the publication of a number of official documents, such as the "Guidelines for Developing and Adopting Measures to Prevent Corruption"² and the "National Anti-Corruption Plan for 2014-2015".³

These legislative initiatives appear to correlate with the recent compliance performance of Russia's state-owned enterprises, e.g. in the energy and utilities sector, where the ABCI currently measures 70% versus the private sector score in this sector of 52%. The current average ABCI across all state-owned companies in our sample is 67%.

¹ Article 13.3 of Russian Federal Law No. 273- FZ "On Preventing Corruption", enacted in January 2013

² Russian Federation Ministry of Labour and Social Protection, November 2013

³ Russian Federation Presidential Decree No. 226 of 11 April 2014

The telecoms sector enjoys the best ABCI score among Russian corporates

The telecoms sector has outperformed all others with an ABCI of 76%.

This comes as no surprise as most of the telecoms companies we analysed are publicly listed on both Russian and foreign stock exchanges. Based on our analysis, public companies perform better than their private peers in all areas, except that of negative corruption-related publicity. This is clearly a function of the higher levels of regulatory scrutiny imposed on listed companies and the more intensive media spotlight when things go wrong.

However, the results for telecoms would have been even higher without the recent negative publicity indicating the involvement of various companies in the sector in high-profile corruption cases.

Russian automotive companies lag with a poor ABCI score of 51%

Auto sector companies, 45% of which are subsidiaries of foreign companies, ranked last in the compliance rating with an ABCI score of only 51%.

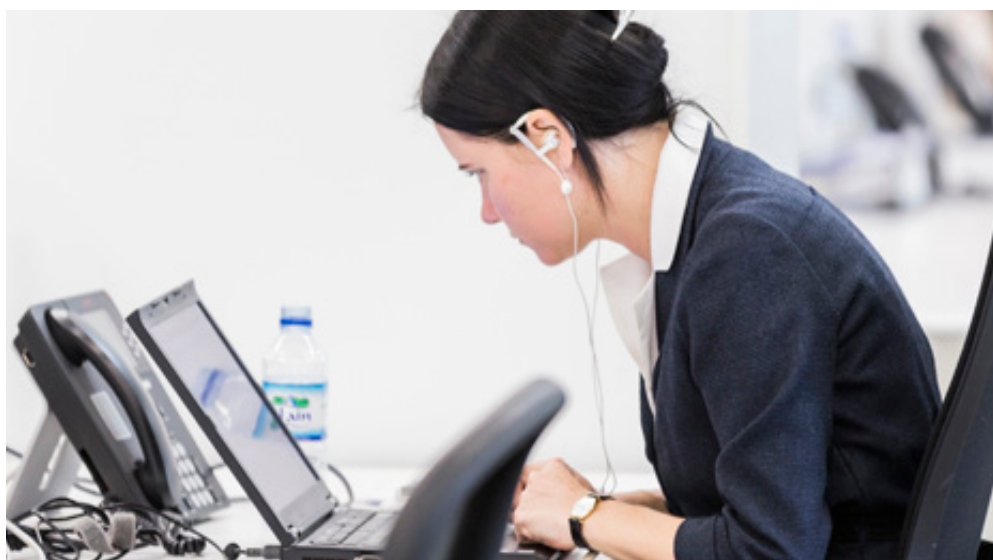
The large automotive companies included in our sample are an extremely diverse group, which includes manufacturing plants, dealers and both domestic- and foreign-owned entities. The ABCI performance in this industry varies significantly from one company to another. For example, listed companies scored 57%, while non-listed companies (mainly composed of Russian auto dealers) scored a paltry 37%.

How can companies boost their compliance perception scores?

The ABCI indicates ways in which companies can improve compliance. First of all, senior management must make a clear commitment to introducing and maintaining a robust compliance programme. They should foster a culture within the company in which bribery and corruption are never acceptable and reinforce this through its public profile and corporate image, for example through a message from the CEO on the corporate website unequivocally declaring the company's commitment to ethical behaviour and adherence to strict compliance principles.

One of the best practical ways to enhance a corporate compliance system is to apply due diligence procedures to all entities that interact with the company, be they suppliers, customers, agents or distributors. Current market best practice is to conduct such checks through automated computer programs or “apps” backed up by bespoke due diligence on higher-risk counterparties.

Automation is the way forward for compliance. From risk assessments and due diligence to detecting and responding to incidents, market-leading companies are relying on data analytics and automation to boost their compliance efforts.

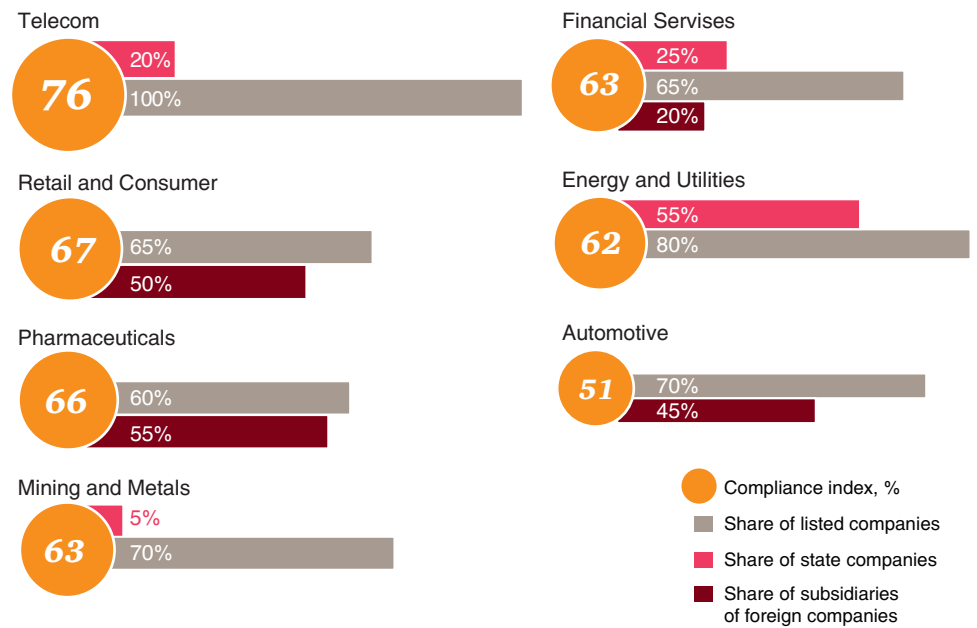


Anti-Bribery and Corruption Index — detailed results

The ABCI score for Russia's top 125 companies is 63%

However, there is a big variance in ABCI scores across industries and ownership structures, as illustrated below.

Figure 1. ABCI scores in different industries



State-owned companies perform better than their private peers

We should note here that state-owned companies have demonstrated a greater commitment to instituting robust anti-bribery and corruption measures, as illustrated by their overall compliance index score of 67%, versus 62% for their private-sector company peers.

The result for state-owned companies is not surprising. The anti-corruption initiatives launched by the Russian government since 2011 have been specifically focused on the activities of state-owned companies, including in the Energy and Utilities sector, requiring them to introduce specific measures to fight corruption.

The data for those industries with a significant share of state-owned companies is illustrated in Figure 2.

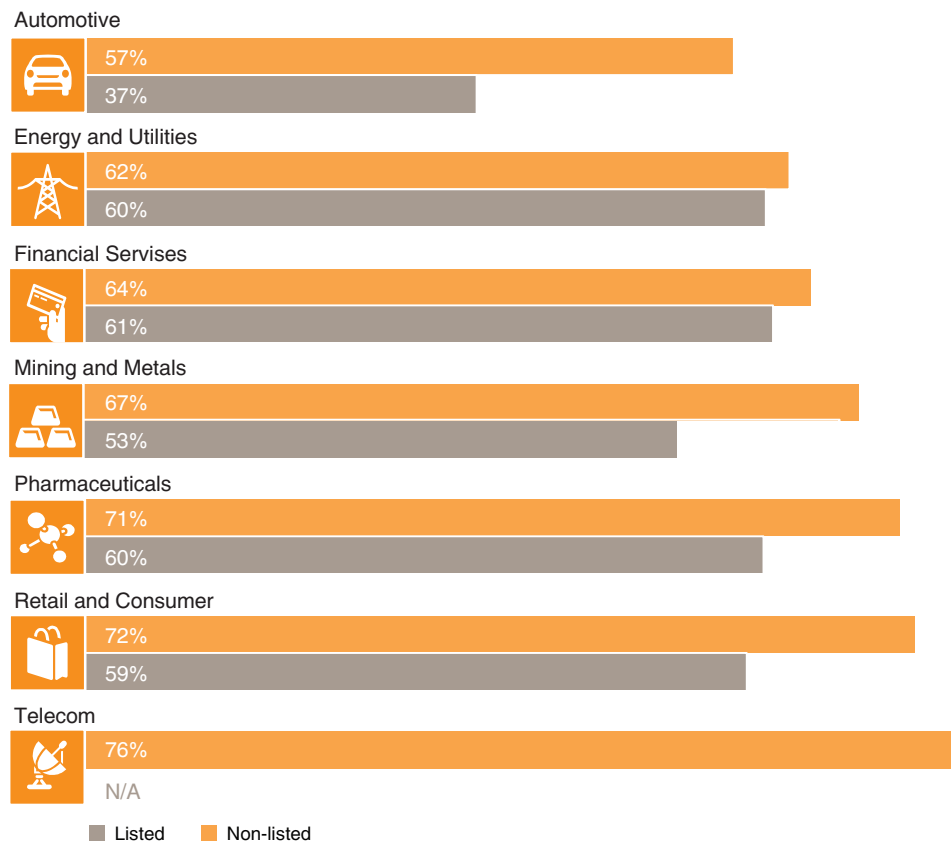
Figure 2. ABCI scores for private sector and state-owned companies



Listed companies show a stronger commitment to anti-corruption compliance

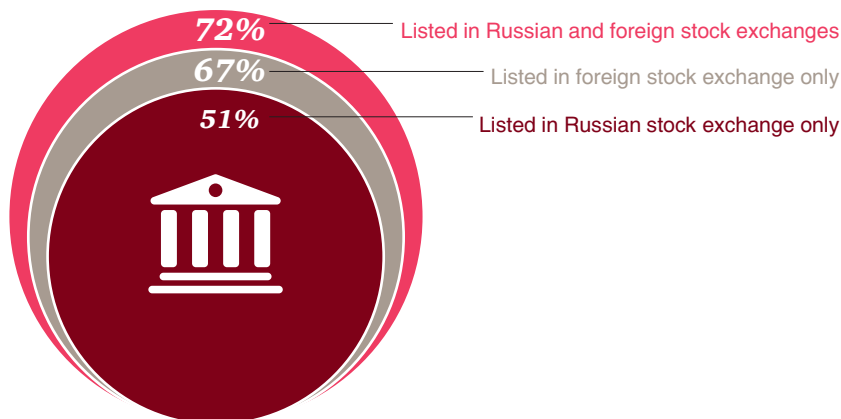
The spread between the compliance performance of listed and non-listed entities is substantial. The ABCI score of listed companies is 66%, while their non-listed peers scored 55%. The data for listed and non-listed companies is illustrated in Figure 3.

Figure 3. ABCI scores for listed and non-listed companies



Note also that ABCI scores vary among listed companies, with the ABCI scores of companies listed exclusively on Russian stock exchanges generally lower than those trading on foreign bourses, which could be attributable to the stricter rules imposed by foreign securities exchanges.

Figure 4. ABCI scores for listed companies



Our further analysis of the compliance performance of listed companies revealed that such companies perform better in all areas under review except as regards negative corruption-related publicity. This could be due to the higher level of regulatory scrutiny of listed companies, as well as a brighter media spotlight on high-profile organisations.

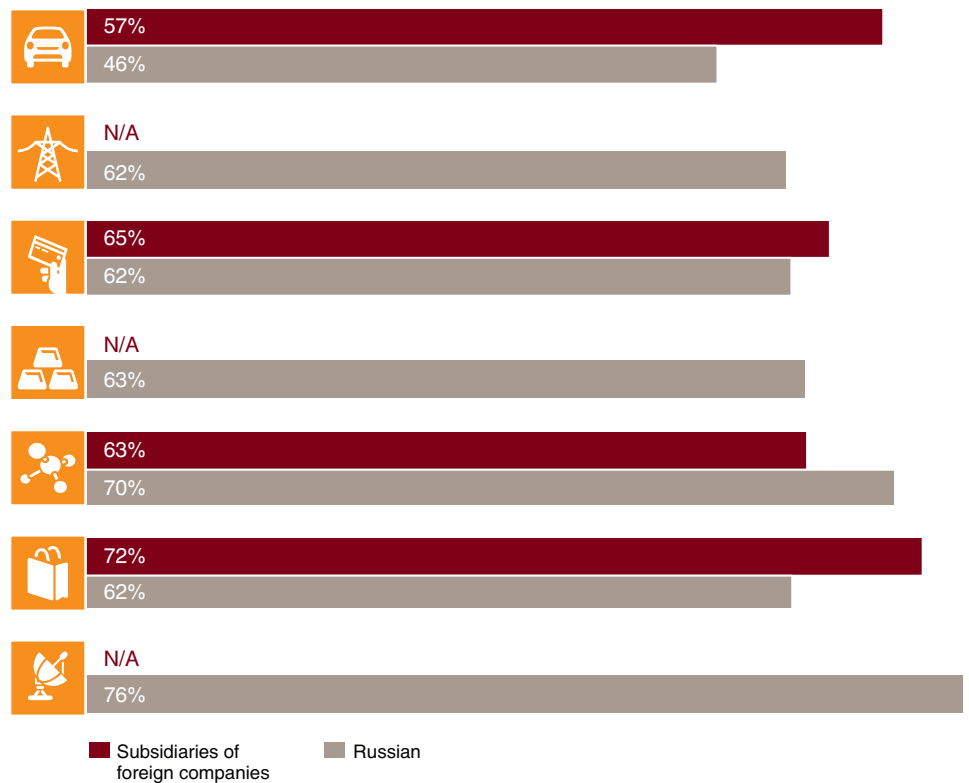
Russian companies versus foreign subsidiaries: Who performs better?

We compared the ABCI performance of the top Russian companies against the subsidiaries of foreign companies active in Russia. Surprisingly, the compliance performance of these two groups of companies is similar: Russian companies scored 62% while local subsidiaries of multinationals scored 65%.

Potentially, this similarity, in particular as regards the average ABCI score for multinationals active in Russia, may be rooted in insufficient efforts by the senior management of multinationals to localise anti-corruption policies and procedures within their Russian subsidiaries.

Indeed, in certain cases we found that subsidiaries of foreign companies often pay more attention to compliance-related disclosures on their global websites than on their local, Russian-language sites (see Figure 5 below).

Figure 5. ABCI scores for Russian companies and subsidiaries of foreign companies



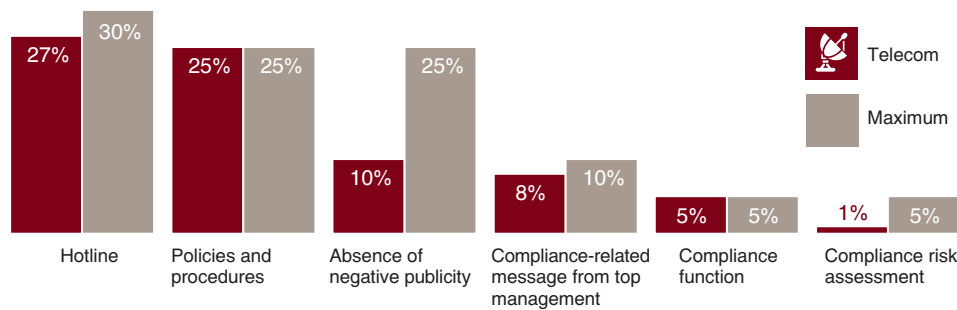
The telecoms industry boasts Russia's best ABCI scores

The telecoms sector outperformed all others with an ABCI score of 76%. This comes as no surprise as most of the telecoms companies we analysed are listed, both in Russia and abroad.

In fact, the results would have been 15% higher without the recent negative publicity implicating the involvement of various Russian telecoms in certain high-profile corruption cases.

The composition of factors contributing to the telecoms industry's high ABCI score is illustrated below.

Figure 6. ABCI scores for the telecoms sector



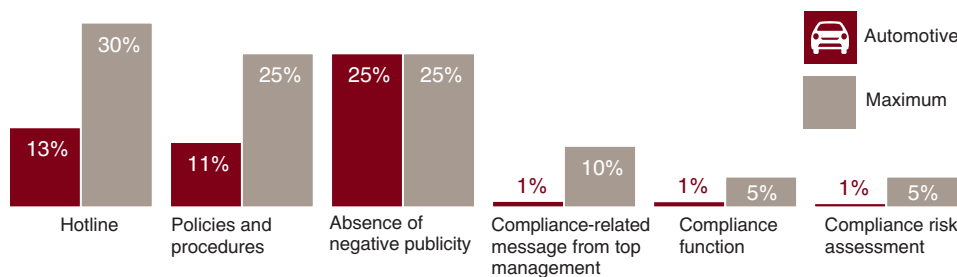
Auto industry performs poorly with unimpressive ABCI score of 51%

Companies in Russia's automotive industry, 45% of which are local subsidiaries of multinational automakers, came in at the very bottom of the compliance index with a sector-wide score of only 51%.

The large automotive companies included in our sample are an extremely diverse group, which includes manufacturing plants, dealers and both domestic- and foreign-owned subsidiaries. The ABCI performance in this industry varies significantly from one company to another. For example, listed companies scored 57%, while non-listed companies (mainly made up of Russian auto dealers) were at a paltry 37%.

The main factors contributing to the ABCI score in the automotive industry are presented in the graph below.

Figure 7. ABCI scores in automotive industry



Methodology

Selection of companies

We selected the top 125 Russian companies by sales volume across the following critical industries: telecommunications, retail and consumer, financial services, automotive, energy and utilities, mining and metals, and pharmaceuticals.

Selected parameters and their weightings in the ABCI

We analysed the selected companies' websites to assess whether they disclose the compliance-related information listed below; we also searched for any negative news coverage or publicity related to bribery and corruption cases.

Based on relevant anti-corruption legislation (Russian law, the US FCPA, and the UK Bribery Act), we developed criteria and analysed performance within the five following parameters: corporate hotline; compliance-related message from top management; in-house compliance function; compliance risk assessment; and policies and procedures.

To ensure that our ABCI data would more closely reflect actual corporate practices, we also searched for any negative news coverage or publicity related to bribery and corruption cases in which any of the companies covered may have been implicated, relying solely on trustworthy, reputable media sources.

We considered only corruption cases that occurred during January 2013 – June 2015. Moreover, we factored in only those cases that occurred in Russia for multinational companies, but for Russian companies with foreign subsidiaries we also took foreign corruption cases into account.

We applied the following weightings for an ABCI score of 100%:

- Corporate hotline (maximum 30%);
- Policies and procedures (maximum 25%);
- Absence of negative publicity (maximum 25%);
- Compliance-related message from top management (maximum 10%);
- In-house compliance function (maximum 5%);
- Compliance risk assessment (maximum 5%).



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