



**RESEARCH IN CORPORATE SOCIAL  
RESPONSIBILITY AND SUSTAINABILITY  
REPORTING OF RUSSIAN COMPANIES**

**CURRENT SITUATION AND MAIN TRENDS**

## SCOPE OF THE RESEARCH

In October-November 2015, EMCO consulting agency has conducted a research in non-financial reporting of Russian companies. Year 2014 reports of Russian top 40 companies by market value (capitalisation) were subject of the research. The rating was prepared by Expert RA.

Only those non-financial and integrated reports, which had been publicly available as of November 11, 2015, were included in the research. Just 21 out of the top 40 companies by market capitalisation published their reports by that date. All of the available reports were structured as follows:

- LUKOIL PJSC, Sberbank of Russia, Norilsk Nickel PJSC, NOVATEK, Gazprom Neft, Mobile TeleSystems, VTB Bank, UC RUSAL, ALROSA, PJSOC Bashneft, RusHydro, PJSC Rostelecom, Polymetal International plc, and PJSC ROSSETI issued CSR reports<sup>1</sup> (**14 reports in total**).
- PJSC Gazprom<sup>2</sup> and OJSC Surgutneftegas published environmental reports (**2 reports in total**).
- Uralkali, Rosneft Oil Company, PhosAgro, PJSC Inter RAO, and TATNEFT issued integrated reports or annual reports with elements of integrated reporting (**5 reports in total**).

It is worth noting that it is not for the first time that EMCO prepares research in non-financial reporting. In 2014, the research covered non-financial reporting of Russian companies partially owned by the government. Results of that research are available in Kommersant newspaper for 28.10.14 <http://www.kommersant.ru/doc/2599488> as well as on the EMCO web site.

## TRANSITION TO THE FOURTH VERSION OF GRI G4

The majority of international corporations and many of Russian companies apply Global Reporting Initiative (GRI) Sustainability Reporting Guidelines for preparation of their non-financial reports.

The fourth version of the standard (GRI - G4) was issued in 2013. Transition to that version of GRI has become a major trend for the year 2015 reporting period for majority of Russian companies. The version provides for disclosure of a larger number of indicators relevant for company's activities in the field of sustainability, in particular it requires disclosure of management compensation, anticorruption efforts, and risks.

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<sup>1</sup>CSR reports here include sustainability reports, social reports, and social and environmental reports.

<sup>2</sup>Once or twice a year PJSC Gazprom publishes sustainability reports apart from annual environmental reports . 2012 – 2013 report was published in 2014.

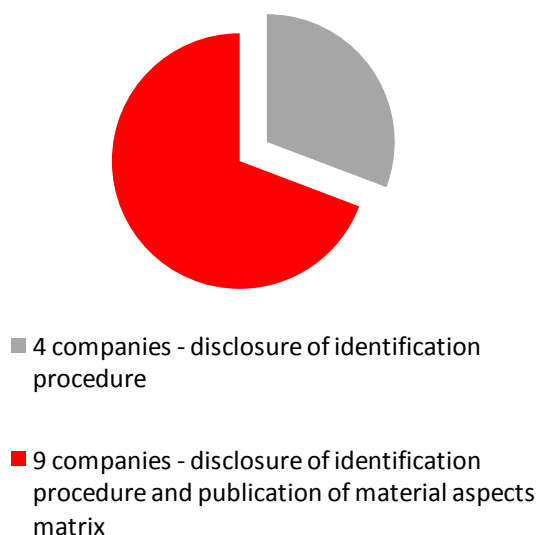
**ALROSA, VTB Bank, PJSOC Bashneft, Gazprom Neft, PJSC Inter RAO, Mobile TeleSystems, NOVATEK, Norilsk Nickel PJSC, UC RUSAL, RusHydro, PJSC ROSSETI, Sberbank of Russia, TATNEFT, Uralkali, and Polymetal International plc** out of Russian companies moved from G3.1 version to G4 in 2014.

All GRI compliant reports prepared after December 31, 2015 must conform to G4 version. This means that Russian companies, which prepare their CSR and sustainability reports with reference to GRI (and many of them already have a tradition of such reporting), have commenced transition to G4 version in due time.

#### **GRI G4. MATERIALITY PRINCIPLE**

One of important focuses of G4 is materiality principle, which requires identification of key issues and disclosure of their impact, both positive and negative. The majority of the companies, which published their non-financial or integrated reports, have declared their adherence to materiality principle.

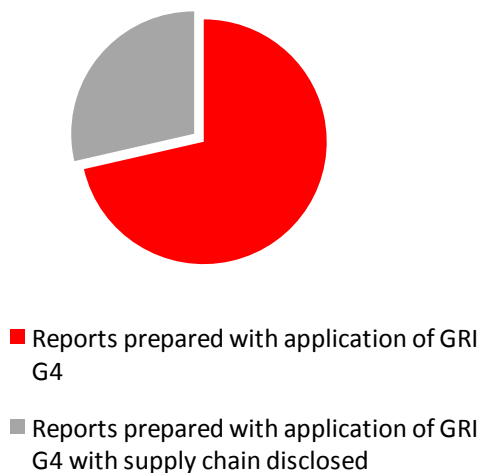
Disclosure of material aspects



Each company has performed the procedure for identification of material aspects within its own approach and preferences. Nevertheless, most of the entities follow the procedure of methodology approach and performed dialogue with stakeholders, in-depth interviews with top managers, and analysis of media coverage. Based on the obtained evidence the companies performed ranking of theme lines and determined priority aspects for themselves (for their stakeholders).

Whereas 4 companies (VTB Bank, LUKOIL PJSC, Mobile TeleSystems, and PJSC ROSSETI) just described the process for identification of material aspects, 9 companies (ALROSA, PJSOC Bashneft, Uralkali, PJSC Inter RAO, NOVATEK, Norilsk Nickel PJSC, RusHydro, Sberbank of Russia, and Polymetal International plc) also presented graphically their materiality matrix.

## Supply Chain Disclosure



## GRI G4. SUPPLY CHAIN

Supply chain is another important aspect of G4 version. G4 identifies this aspect as one of the priority for disclosure of CSR and Sustainability performance. Particular attention is paid to that aspect.

Emerging of the new requirement to disclose supply chain extends substantially the entity's area of monitoring and control, as well as boundaries of its responsibility in relationships with external stakeholders. It should be noted that, as opposite to the materiality principle, which has declarative nature to a large extent, not many of the Russian

companies, who prepared their reports, disclosed supply chain information.

Only 6 companies provided their disclosures of this aspect by describing core purchases, principles of relations with suppliers and reporting numbers of their suppliers and contractors. These companies are: ALROSA, PJSOC Bashneft, Gazprom Neft, NOVATEK, Norilsk Nickel PJSC, and Uralkali.

## GRI G4. CORPORATE GOVERNANCE INDICATORS

GRI G4 provides for disclosure of much greater number of corporate governance aspects. There are 22 of these aspects in total. Out of the companies reporting under G4 the leaders in corporate governance disclosures are: Norilsk Nickel PJSC and Uralkali (20 aspects each), PJSOC Bashneft, (16 aspects), and PJSC ROSSETI (13 aspects).

11 aspects and less were disclosed by the following companies (in descending order): Polymetal International plc, UC RUSAL, NOVATEK, RusHydro, Gazprom Neft, PJSC Inter RAO, ALROSA, VTB Bank, Sberbank of Russia, and Mobile TeleSystems.

## CONSISTENCY PRINCIPLE

Many companies have disclosed substantial part of the data for 3 and more years, thus ensuring one of the important pre-conditions for any reporting, i.e. consistency. Therewith

ALROSA, Gazprom, Gazprom Neft, LUKOIL PJSC, PJSC ROSSETI, and PhosAgro have disclosed most of the data for 5 years.

Sberbank of Russia, Mobile TeleSystems, PJSOC Bashneft, NOVATEK, Norilsk Nickel PJSC, TATNEFT, Rosneft Oil Company, RusHydro, OJSC Surgutneftegas, Uralkali, and Polymetal International plc presented data at average for 3 years.

VTB Bank, PJSC Inter RAO, UC RUSAL, and PJSC Rostelecom focused on analysis of indicators for 2 years.

## **REPORTS VERIFICATION**

The practice of so-called external verification of non-financial reporting becomes more and more popular among Russian companies. As a rule, leading auditing firms are engaged to provide external assurance (PwC, EY, NP Consult). PwC reviewed non-financial reporting of RusHydro and ALROSA, EY certified report of VTB Bank, and NP Consult assessed report of Norilsk Nickel PJSC.

Reports of many Russian companies passed assurance procedure in Non-financial Reporting Board of Russian Union of Industrialists and Entrepreneurs (RSPP). PJSOC Bashneft, Gazprom Neft, LUKOIL PJSC, Norilsk Nickel PJSC, PJSC Rostelecom, and RusHydro are among them. PJSC ROSSETI continues its practice of assurance of its non-financial reports by experts.

Reports of PJSOC Bashneft and Polymetal International plc. were verified under GRI Materiality Disclosures Service procedure, where correctness of completion of GRI matrix is certified. Report of RusHydro was submitted for the GRI Content Index Service. GRI confirmed the accuracy of the GRI G4 Content Index. .

Therewith Norilsk Nickel PJSC demonstrated the most complete disclosure of information. Its report was prepared in accordance with “extended” version of GRI G4 Sustainability Reporting Guidelines.<sup>3</sup>

## **INTEGRATED REPORTING**

2 companies out of 40, namely Uralkali and PhosAgro, identified their annual reports as integrated ones. Furthermore, 3 annual reports (Rosneft Oil Company, TATNEFT, and PJSC Inter RAO) may be provisionally classified as integrated reports or as reports with elements of integrated reporting.

Transition to integrated reporting is a novelty for Russia and is relatively new for foreign companies as well. The International Integrated Reporting Council (IIRC) was established in

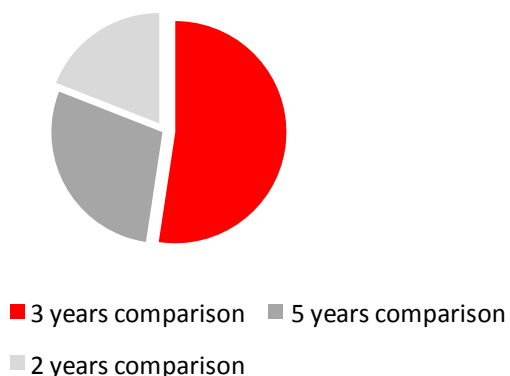
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<sup>3</sup>At “extended” level all indicators must be disclosed (six major categories of the indicators are: economic, environmental, labour practices and decent work, society, human rights, product responsibility).

2010, and International Standard for Integrated Reporting was published in 2013. Several Russian companies are involved in pilot programme of The International Integrated Reporting Council.

The Standard provides for particular structure of integrated reports. Obligatory content elements are: organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook, basis of presentation.

Ranking of reports by number of years of consistent data disclosed



Integrated reporting focuses on the approach to presentation of information, which is somewhat different from that traditional for annual and sustainability reports. It is assumed that company demonstrates its ability to generate value in perspective, and it proves this through integrated performance information for the reporting period. Therewith integrated reports have a trend to conciseness and clarity. It is important to note that

the International Standard for Integrated Reporting does not replace GRI. Conversely, the Standard may be successfully in accord with it.

Uralkali has demonstrated unambiguous success in transition to integrated reporting. It applied both the Integrated Reporting Standard (all compulsory elements were included and disclosed in the report) and GRI G4 standard at “core” level of disclosure. It is worthwhile noting that the report may be called integrated not only from the formal point of view, but also from the point of view of the maintained key idea, as well as from the point of view of information demonstrativeness.

Reports of PhosAgro, PJSOC Bashneft, Rosneft Oil Company, and PJSC Inter RAO include elements of integrated reporting and demonstrate soundness of approach and ambition to integrated form of reporting. These companies are on the way of developing their own systems for integrated reporting.

## **INTERACTIVE VERSIONS OF THE REPORTS**

Russian companies increasingly publish interactive versions of their reports. Online report allows individual setting of interface in convenient format, which streamlines working with necessary information. Investors, partners, media, and all stakeholders may analyse companies' performance results using different forms of data presentation and service functions developed for that purpose.

Furthermore, interactive versions imply simplified feedback mechanism with the company. Users may provide their opinion about the report via online poll or by completing feedback form. It is worth noting that while 2-3 years ago companies prepared special reporting applications for App Store and Google play services, nowadays many companies prepare interactive versions and publish them at corporate web sites. Therewith, interactive versions, as a rule, imply scaling for all currently available mobile platforms.

ALROSA, Norilsk Nickel PJSC, PJSC ROSSETI, Sberbank of Russia, UC RUSAL, Uralkali, and PJSC Inter RAO published interactive versions of their reports in 2014.

## **SUMMARY**

- Transition to integrated reporting is one of the most promising trends in reporting. Seemingly, more and more Russian companies will transit to this particular form of disclosure in the nearest future.
- It is worthwhile noting that CSR function in Russian corporate practice normally is not separated into special administrative unit. Often CSR issues are managed by PR and IR departments related with ensuring external information support of the companies' operations. Until now, few companies had a position of sustainability director (Polymetal International plc. being a notable exception, where Year 2013-2014 Sustainability Report declares establishment of a position of sustainability director in 2015).
- Virtually all of the reports include fairly detailed and clearly elaborated set of aspects describing performance in the areas of CSR and sustainability. The majority of Russian companies implement the international standards (GRI) and developed, therewith, their own systems and approaches to structuring of the information which is being disclosed.
- In the early days of CSR practices these activities were to a large extent viewed as a direction, which main result was formalisation and disclosure of corporate performance data in a standardised report. Nowadays Russian corporations begin viewing CSR as a process, which allows not just saving costs in reputational sphere, but also as a tool, which may have positive impact on saving economic costs (via implementing advanced managerial models, building effective feedback channels with stakeholders, prevention and mitigation of environmental risks, and etc.).
- The novels introduced into Federal Law # 7 'On Environment' imply general requirement toughening and strengthening of supervision over businesses. In turn, this create additional motivation for transformation of domestic CSR and sustainability practices

and their further development with transition from 'declarative reporting model' to model focused on systematic integration of sustainability issues into corporate management systems and real reduction in economic costs to businesses.



## APPENDIX # 1

### Year 2014 Russian top 40 companies by market capitalisation<sup>4</sup>

Company		Availability of a report for the year 2014 and name of the report
1	PJSC Gazprom	Environmental Report
2	Rosneft Oil Company	Annual Report with elements of integrated reporting
3	LUKOIL PJSC	Sustainability Report
4	Sberbank of Russia	Corporate Social Responsibility Report
5	Norilsk Nickel PJSC	Corporate Social Responsibility Report
6	NOVATEK	Sustainability Report
7	OJSC Surgutneftegas	Environmental Report
8	Magnit	Annual Report
9	Gazprom Neft	Sustainability Report
10	PJSC MegaFon	Annual Report
11	Mobile TeleSystems	Sustainability Report
12	VTB Bank	Social Report
13	TATNEFT	Integrated Annual Report
14	Uralkali	Integrated Report
15	UC RUSAL	Sustainability Report
16	SISTEMA JSFC	Annual Report
17	NLMK Group	Annual Report
18	ALROSA	Social and Environmental Report
19	PAO Severstal	Annual Report
20	PJSOC Bashneft	Sustainability Report
21	Bank of Moscow	Annual Report
22	Yandex	Annual Report
23	RusHydro	Corporate Social Responsibility and Sustainability Report
24	PJSC Rostelecom	Social Report
25	Lenta	Annual Report

<sup>4</sup>The rating was prepared by Expert RA.

26	PhosAgro	Integrated Report
27	E.ON Russia JSC	Annual Report
28	Moscow Exchange Group	Annual Report
29	Rosgosstrakh	Annual Report
30	PJSC MOSOBLBANK	Annual Report
31	Polymetal International plc	Sustainability Report
32	NOMOS –BANK	No reports available
33	PJSC Inter RAO	Annual Report and Sustainability and Environmental Responsibility Report (combined report)
34	OJSC Polyus Gold	Sustainability Report was not published at the corporate web-site
35	PJSC ROSBANK	Annual Report
36	VSMPO-AVISMA Corporation	Annual Report
37	PJSC ROSSETI	Social Responsibility and Corporate Sustainability Report
38	OAo TMK	Annual Report
39	OJSC Magnitogorsk Iron and Steel Works	Annual Report
40	Qiwi	No reports available