

## PAST EVENTS



On April 14, 2022, **GCI 4 Boards**, in partnership with **Deloitte CIS**, held its first online event since the global geopolitical shock, dedicated to the ESG agenda in the new reality.

Event participants discussed the future of ESG, with a focus on the following topics:

- will companies stick to their ESG goals and approaches?
- will ESG fade into the background or will prove its importance in making the business more resilient?

The discussion was attended by: **Tatyana Mitrova**, Board Member, **NOVATEK** and **Schlumberger**; **Dmitry Aksakov**, Vice President of **VEB.RF**; **Evgeny Shvarts**, Independent Director, Board Member, **Norilsk Nickel** and **RUSAL**; **Irina Bakhtina**, Director, Sustainable Development, **RUSAL**; **Viktor Drozdov**, Director, Business Communications and Investor Relations, **Polyus**; **Sergey Kudryashov**, Head of the ESG department, **PhosAgro**; **Yulia Mazanova**, Deputy General Director, Sustainable Development and Corporate Communications, **Metalloinvest**, **Ivan Kukhnin**, Partner, **Deloitte CIS**; **Maria Novokreshchenova**, Deputy General Director, **Horizon CF** and others.

It is worth noting that all discussion participants remain confident in the importance of the ESG agenda in the context of global political and economic restructuring, which is now taking place in the world. Despite of the upheaval, boards of directors and management of the Russian companies, thinned out in ranks, overloaded with business restructuring, and having temporarily pushed aside strategic issues, still consider ESG as means to business sustainability, especially in the context of the S and the G, since the climate is temporarily out of the immediate agenda.

It is clear, that the companies that regarded ESG only as a fashion trend, will easily abandon it. Nevertheless, for companies leading the ESG agenda, it is time to test their adherence to ESG principles.

Speaking of **NOVATEK**' experience, **Tatyana Mitrova** noted: "Renewable energy and hydrogen projects, on which we worked before the world changed, continue to live on. Our general direction remains unchanged".

**Irina Bakhtina** pointed out that "sustainable development is not just the ESG factor, but part of a large stakeholder theory", aimed at considering the interests of future generations (eco-defenders). The allocation of ESG factors by significance is incorrect, the balance of all components of the agenda is important here. **RUSAL**, without slowing down, continues to develop its projects in accordance with the ESG principles and considering the interests of all stakeholders. Major market players, in particular, **Polyus**, **PhosAgro**, **Norilsk Nickel**, **Metalloinvest** holding, do not plan to abandon their long-term ESG goals.

According to [Viktor Drozdov](#), the main message of such commitment is still considered to be a competitive advantage.

As [Dmitry Aksakov](#) noted, "observance of the minimum ESG propriety must be maintained, it will be very important in the long term". VEB.RF' clients also do not abandon their strategies and do everything to fulfill their obligations.

The discussion demonstrated the following:

- the companies are unanimous in assessing the importance of ESG, despite the external political and economic difficulties, changes in supply chains, and internal shifts in the composition of the board of directors
- in assessing the ESG, the importance of balancing all factors is emphasized
- the companies do not plan to cancel long-term ESG goals
- ESG development continues under new circumstances.



The internal and external ecosystems of Russian business are going through unprecedented changes, meaning that management systems will also change significantly".

[Gennady Vanin](#), Head of CFO and Executive Compensation Practices, [Korn Ferry](#), confirmed that "the Board of Directors, which usually solves tasks for years ahead, has been forced to deal with short-term tasks in the last two months".

Regarding the current realities, it was noted that there is "a lack of experience that could be applied as a ready-made model". [Peter Demchenkov](#), Chairman of the Supervisory Board, [X5 Group](#), added that currently "some Boards of Directors are forced to be reshaped by 60 percent or more."

In connection with the sharp and significant outflow of directors, there is an urgent need to find personnel with the appropriate expertise and competencies to ensure high quality management in difficult economic conditions. It is also critical to identify new approaches to their motivation. This was pointed out by [Olga Filatova](#), Board Member, [HeadHunter](#).

[Anna Lvova](#), HR Director, [Severgroup](#), Board Member, Severstal, outlined the challenges facing the Remuneration and Nomination Committees, which are the following:

On April 28, 2022, [GCI 4 Boards](#), in partnership with [Deloitte CIS](#), held an online discussion on the subject of HR strategy for board members in the context of economic restructuring. The event participants discussed recent changes to the approach in the search and motivation of Russian companies' directors. The questions raised during the discussion touched the subject of the prospects of independent directors' demand and requirements for a set of necessary competencies for the new management personnel.

[Olga Pascault](#), Board Member, Committees for audit, remuneration and appointments, [SPB Exchange](#), Asakabank, in the role of event moderator, opened the discussion by outlining the importance of issues raised: "Our world has changed drastically, and at the level of shareholders we see an exodus of foreign shareholders, while at the management level, the Board structure described in Korn Ferry's latest annual report no longer exists. The role of independent directors has changed, the tasks are completely different now.

- the need to make quick decisions in the absence of experience
- experiments with rewards scheme can be costly
- risk of populist decisions
- psychological challenge – stress tolerance
- loss of independent board members.

Discussion moderator **Elena Sapozhnikova**, Corporate Governance Expert, Independent Director, investor, reminded of the core values of sustainable development, corporate governance principles, fiduciary responsibility, and the role of boards of directors.

**Veronika Varshavskaya**, Director of Tax and Legal Services, **Deloitte CIS**, confirmed that “the principles of corporate governance will not be destroyed” and no changes in governance are foreseen.

Event participants spoke about the role and structure of boards of directors in the new conditions in the short survey carried out during the discussion.

**Gennady Vanin** expressed a concern about the declining role of the boards of directors, but at the same time noted that the role of ESG is not weakening and suggested a possible growth of companies with ESG committees.

**Olga Filatova** believes that the role of independent and dependent directors will change, and that the divide will no longer occur by committees, but by topics.

**Peter Demchenkov** and **Olga Pascault** noted the importance and the increasing role of independent members of boards of directors.

Discussion participants divided on the new key competencies of directors: experience or diversification, crisis managers or broad specialists? **Anna Lvova** and **Peter Demchenkov** believe that industry expertise is less important now, while psychological stress resistance becomes crucial. **Gennady Vanin** sees an increasing role of industry competencies in the near future.

The speakers agreed that the motivation of boards of directors will definitely be transformed. **Olga Pascault** believes that a roll back is possible in linking the performance assessment to the company's financial indicators, and the assessment period will be reduced to an ultra-short term.

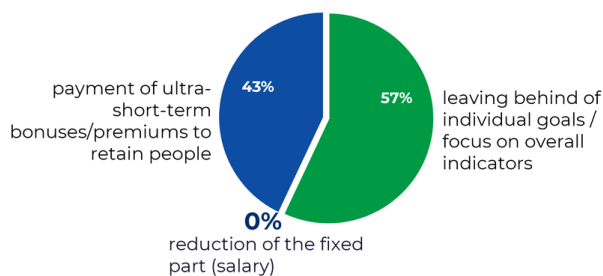
According to **Gennady Vanin**, boards of directors are currently at their maximum capacity, so the way out may be a creation of committees with periodic short-term additional payments to committee members or one-time additional payments to board members for overtime hours. After all, the KPIs set for this year are unlikely to be met. The problem also lies in linking the pay of executives to the prices of the company's shares, which are now going through hard times.

In **Peter Demchenkov's** opinion, the number of KPI's in the current situation should be reduced, while the assessment timeline should be shorter.

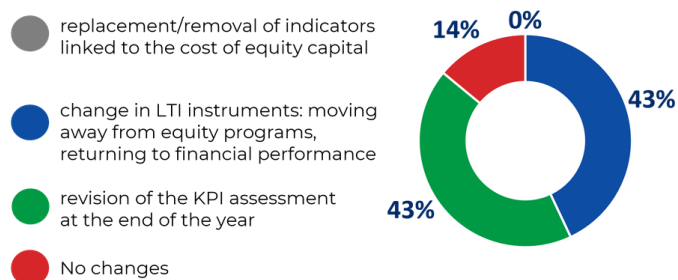
**Anna Lvova** pointed to the management's request for new types of rewards, in particular: performance bonuses, programs that stimulate entrepreneurship and new ideas, as well as project bonuses tied to project deadlines.

The discussion was lively and thought-provoking, concluding with the results of the short participants' survey:

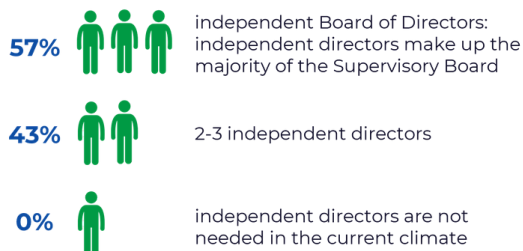
## Top management remuneration



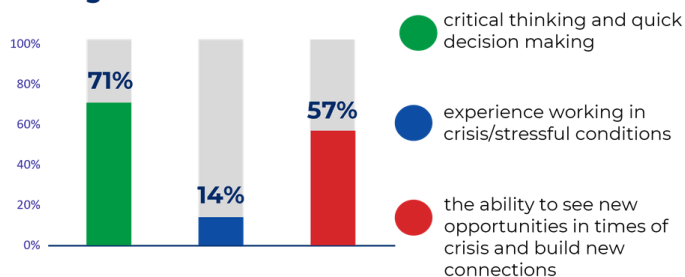
## Changing the top management motivation system



## Optimal Board Structure in 2022/2023



## Competences of the Board of Directors and management



## Board of Directors role



In conclusion, new economic conditions have made adjustments to the competencies assessment and to the activities of members of the boards of directors, in particular, the focus has shifted to ultra-short-term goals, additionally the role of independent directors who are able to quickly make difficult decisions has increased.

## UPCOMING EVENTS



On June 9, 2022 GCI 4 Boards, in partnership with Deloitte CIS and Financial University under the Government of the Russian Federation, will hold an offline discussion "Climate projects: risks and opportunities for business".

### SYNOPSIS:

In Russia, the introduction of a voluntary carbon market and related projects faces several significant barriers:

- carbon regulation principles in Russia are under active development. The Federal Law "On Limiting Greenhouse Gas Emissions" dated 2 July 2021 entered into force on 30 December 2021. A whole package of regulations limiting GHG emissions was adopted to supplement this law in March 2022. The Federal Law "On Conducting an Experiment to Limit Greenhouse Gas Emissions in the Sakhalin Region", dated 6 March 2022, also envisages the creation of a pilot carbon and emissions trading system in Russia;

- climate projects, and especially forestry projects, could become a key enabler of decarbonization strategies in the country. They can unlock enormous opportunities for reducing GHG emissions by increasing absorption and monetizing related business initiatives. Nevertheless, the launch of a carbon market in Russia requires the creation of adequate conditions and incentives for investors; existing regulatory issues must also be resolved.

GCI 4 Boards and Deloitte CIS have released a joint piece of research "Climate Projects: Risks and Opportunities For Business". It focuses on the following key topics:

- classification, standards, and methodology of climate projects
- mechanisms and dynamics of carbon markets
- risks and benefits of climate projects in Russia and worldwide
- the relevance and necessity of climate projects
- climate management opportunities provided by nature (forests) and technology (carbon capture and storage [CCS], sequestration, reduction of GHG emissions)
- regulation and monetization of climate projects
- the conditions for successfully implementing climate projects
- examples of climate projects developed and implemented in Russia and around the world.

### DISCUSSION TOPICS:

- the role of climate projects in achieving decarbonization goals
- the future of forestry projects: key challenges and potential solutions
- CCS projects in the oil and gas industry: a new line of business or a way to reduce carbon footprints?
- the outlook for Russian climate projects on the domestic and global markets
- the conditions under which foreign buyers will recognize Russian carbon credits (especially in the Asia-Pacific region)
- incentives to stimulate investments in climate projects.

## SPEAKERS:

Irina Gayda, Member of the Board of Directors,  
NOVATEK

Nikolay Ivanov, Vice President, Segezha Group

Ivan Kukhnin, Partner, Deloitte CIS

Alexander Sharabaiko, Board Member,  
PhosAgro

Evgeny Shvarts, Independent Non-Executive  
Director, Member of the Boards of Directors,  
RUSAL, Nornickel

## BY INVITATION ONLY. APPLY FOR PARTICIPATION:

<https://eng.cgi-russia.ru/events/climate-projects-risks-and-opportunities/>

# Leaders in Support of Climate Transformation initiative



Rustem Ismahilov  
CEO, AK Bars Insurance

«The Russian economy and its arteries – the financial system – are already feeling the consequences of the green transformation and the exponential growth in the importance of the principles of sustainable development. These consequences are manifested in increased pressure from stakeholders, primarily regulators and consumers. The insurance industry takes part in the transformation process playing several important roles: as an institutional investor, as a risk management tool for third parties' risks, and as a market player, an employer and a taxpayer. Ak Bars Insurance is fully aware of its role of a sustainable development evangelist and is happy to be the agent of change and to share its ESG expertise»



## New Zero Emission Flight (ZEF) Delivery Group in the UK

The UK government has convened a new group of aviation experts tasked with exploring ways to catalyse development of the technology, infrastructure, and regulations needed to make zero-emission flights a reality. This new function is called the Jet Zero Council (JZC), and it aims to ramp up the UK's capabilities to deliver net-zero and zero-emission technologies.

The government's actions show that the UK is driving the climate agenda, creating a better future for the next generations.

The purpose of the ZEF Delivery Group is to put the UK in a leading position in the race to achieve zero emission flights. As such, it is helping the JZC deliver on its objectives to accelerate the design, manufacture, testing, certification, infrastructure, and commercial operation of zero emission aircraft and aviation systems in the UK. It support grassroots innovation in these areas, helping make the UK the best place in the world to develop new aviation technology and challenge existing approaches by involving disruptors and innovators.

Read more about membership to the JZC and its objectives.

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## Survey findings reveal that 41.2% of Russian construction companies will continue preparing sustainability reports

The Green Brands League, jointly with Deloitte and ANO Roskachestvo, conducted a survey to analyze sustainability issues in the current environment. Large businesses accounted for 53% of respondents; the remaining 47% were small and medium-sized enterprises. Construction companies accounted for 9.8% percent of the businesses surveyed.

Nearly half of respondents claimed that the economic crisis has forced them to optimize costs at their companies.

The survey's key findings are presented below:

- 47% of respondents noted that they have put foreign projects on hold.
- 78% of market players said that the composition of their ESG teams remains the same; however, 19.6% of the businesses surveyed had cut down on funding and functions.

- 41.2% of respondents still plan to prepare sustainability reports for 2021/2022
- 43% of companies claimed that sustainability issues will continue to influence decision making when selecting suppliers and business partners;
- 47% of businesses will continue communicating their ESG agenda globally, with the focus shifting from EU countries to Asia, China, and India. The Asia Pacific region will be especially interested in sustainable construction.

According to the Green Brands League, the key tasks in 2022 are preserving sustainability principles, entering new markets, ensuring resource efficiency, expanding geographies, building new supply chains, and enhancing government support tools.

## Exxon sees carbon capture market at \$4 trillion by 2050

Exxon Mobil Corp. estimates there will be a \$4 trillion market by 2050 for capturing carbon dioxide and storing it underground, the company said in a presentation on Tuesday. That is about 60% of the \$6.5 trillion market the U.S. largest crude producer estimates for oil and gas by then.

Carbon capture is an important emissions reduction technology, according to the International Energy Agency (IEA). It involves the capture of CO<sub>2</sub> from fuel combustion or industrial processes, transporting it via ship or pipeline, to be stored underground in geological formations or used as a resource to create products.

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## Climate action is in banks' own interest, ECB says

European banks could earn almost €6 billion in annual revenue from financing the transition to a more sustainable economy, according to their top regulator.

"The balance sheet choices banks will make about green and non-green assets will materially impact their bottom lines," said Andrea Enria, who leads the European Central Bank's supervisory board.

"Consumers and investors will move away from banks if they disagree with their approach toward climate change and environmental challenges".

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## Leading global banks launch climate finance initiative to decarbonize aviation industry

A group of six leading global financial institutions, including Bank of America, BNP Paribas, Citi, Crédit Agricole CIB, Societe Generale and Standard Chartered, announced today a new partnership with RMI's Center for Climate-Aligned Finance, aimed at helping to decarbonize the aviation sector through the creation of a new Aviation Climate-Aligned Finance Working Group.

The aviation industry is responsible for 2-3% of global emissions.

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## Forestry modernization is the largest source of Russia's decarbonization in all scenarios

Experts from the Energy Center of the Moscow School of Management "Skolkovo" came to such conclusions.

Estimates, however, differ: if in the official Strategy for Low-Carbon Development of Russia and the Sber CIB scenario its contribution is estimated at more than 1,000 million tons of CO<sub>2</sub>-equivalent, then VTB Capital expects half the figure.



## ESG Alliance intends to establish a dialogue with the BRICS countries, the EAEU and the Asia-Pacific region

A meeting of the founders was held, at which an updated work plan was presented, taking into account the specifics of the current political and economic situation.

The ESG Alliance, created in the Russian Federation in December last year, considers it important in the context of the transformation of the ESG agenda to establish a systematic dialogue with associations in "new" markets, such as BRICS, the EAEU and the Asia-Pacific Region, and interaction with the ESG expert community of these regions.

