



ANNUAL RUSSIA & CIS CONFERENCE

-- Governance and Valuation

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IS THERE A COMPELLING VALUE PROPOSITION FOR IMPLEMENTING “BEST IN CLASS” GOVERNANCE?



WHAT ARE THE NECESSARY PREREQUISITES TO A SUCCESSFUL (*Achieved Target Multiple + Ongoing Market Cap Enhancement*) IPO?

1. Business model that is “sellable”
2. Reliable, timely financial data
3. “Acceptable” corporate governance

(...and, hopefully, transparency and high ethical standards....)



EMERGING MARKETS LISTEES SUFFER A MATERIAL RISK PREMIUM CHARGE -

Investors and regulators are concerned about:

- “rule of law” (Yukos, YPF...)
 - accuracy of financial reporting (Puda Coal, China Forest)
 - domination by “controlling shareholders” (Volkswagon, ENRC)
 - behind the scenes government influence or the influence of networks connected to officials (Rosneft-BP-TNK oligarchs)
 - corruption (Hermitage Capital)
- “Repeatedly over the last 20 years, when British shareholders are surveyed they have responded that they are willing to pay a premium for better governance in their investee public companies.”
 - “When companies from emerging markets have competed for capital markets access using visibly better corporate governance models, they have been rewarded with higher market capitalization.”
Example: Uralkali

EMERGING MARKETS LISTEES NOW TRADE AT 10% - 40% DISCOUNT



THERE DO NOT HAVE TO BE LARGE RUSSIAN LAWSUITS TO CREATE PERCEIVED 'RISK'.

Potential 'market makers' and competent directors perceive this market as containing significant risk.

You ARE competing against all the emerging markets - and they INCREASE perceived "Russian Risk"

The perceived "Russia Risk Premium" is the highest among all emerging markets



SUCCESSFUL GOVERNANCE IS AN EVOLUTION, NOT A REVOLUTION

Moving from a “controlling / dominating” operational/management model to a “shared oversight / ‘governance’ model”

The octopus vs the shark vs the outsider



HBS 2010 study: the factors that indicate success in the Russian market (*dominant, control-oriented owner/founder + “the ‘way’” + operational model*) do NOT translate well to the global market without *significant* remediation.

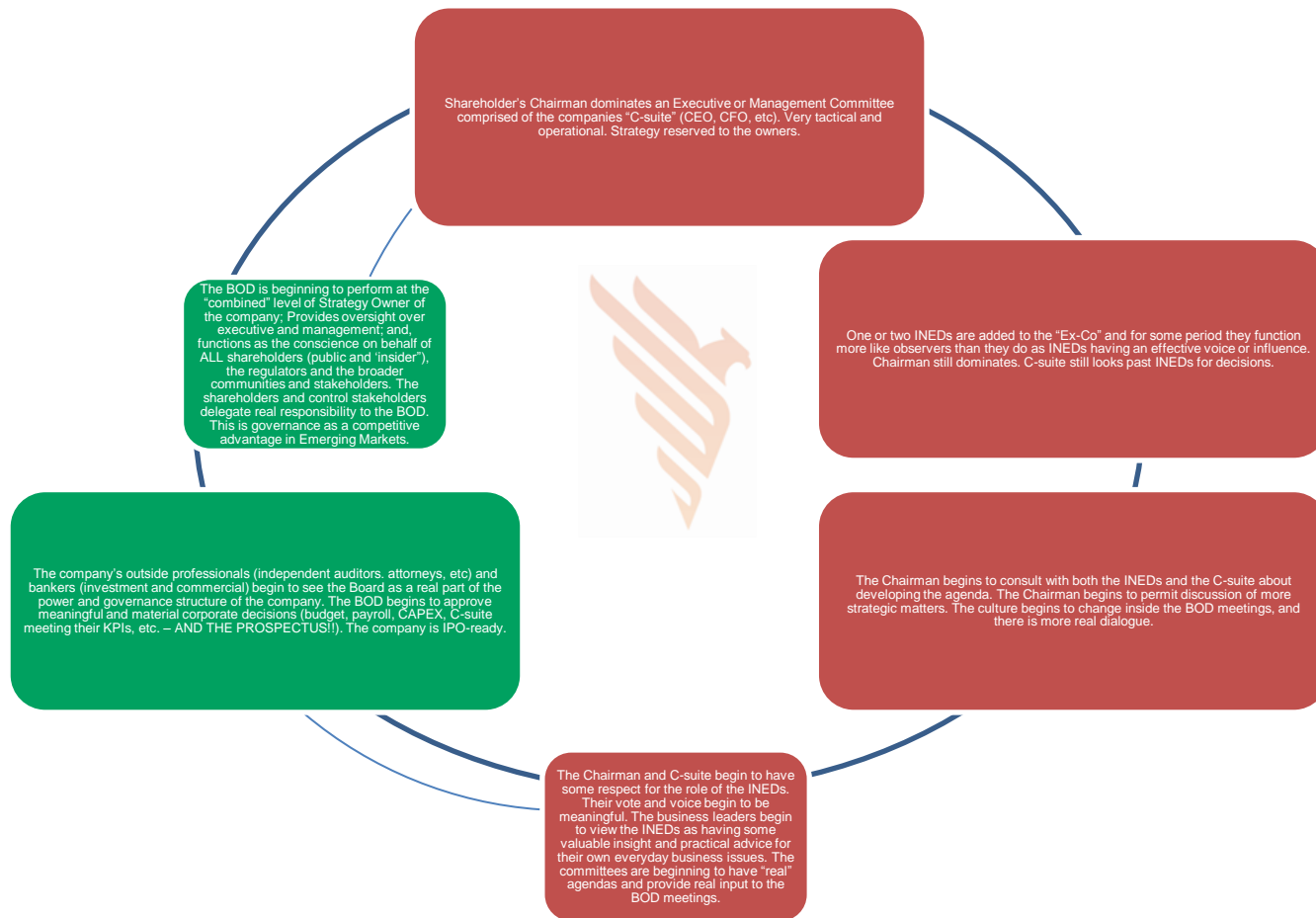
HOW WILL YOU REMEDIATE?

***Bolt-on / parallel systems? Or an integrated / homogenized system?* EITHER WAY WORKS**



Typical Metamorphosis from “Ex-Co” to “Governed Board”

There must be TRUST in the INEDs and the Board process from owners



IT NORMALLY TAKES TWO YEARS OF WORKING WITH INEDs TO REACH THE IPO-READY STAGE!!



TOO MANY COMPANIES FROM EMERGING MARKETS LIST BEFORE THEY HAVE EFFECTIVE GOVERNANCE

Too many IB's, law firms and Big Four firms fail to act forcefully and honestly on behalf of the capital markets -- IT IS DIFFICULT TO 'COACH' A GAME YOU HAVE NEVER PLAYED

I have personally seen companies list before they have effective governance, and their market cap plummets



ONCE A COMPANY LISTS, THE VALUE OF THE SHARES OF THE CONTROLLING SHAREHOLDERS AND INVESTORS IS **INSEPERABLE** FROM THE VALUE OF THE PUBLIC FLOAT

The very same systems and processes that support good corporate governance generally also support “normative public company efficient operations” (e.g., Risk Management, Internal Controls, Management Reporting, KPIs and reward systems linked to performance, etc)

The ‘Amazing Monthly Reminder’



THIS MARKET, AND ANY PROPOSED ‘FINANCIAL CENTER’, IS COMPETING AGAINST LARGER, MORE LIQUID MARKETS WHICH ALLOW INDEMNIFICATION - AND HAVE MORE ESTABLISHED AND RELIABLE ‘INSURANCE MARKETS’

No director who is really worth having (or who is ‘smart enough that you would want him/her) would ever serve without effective D&O cover!!!



NO HEALTHY IPO WITHOUT GOVERNANCE

+ NO GOVERNANCE WITHOUT COMPETENT DIRECTORS

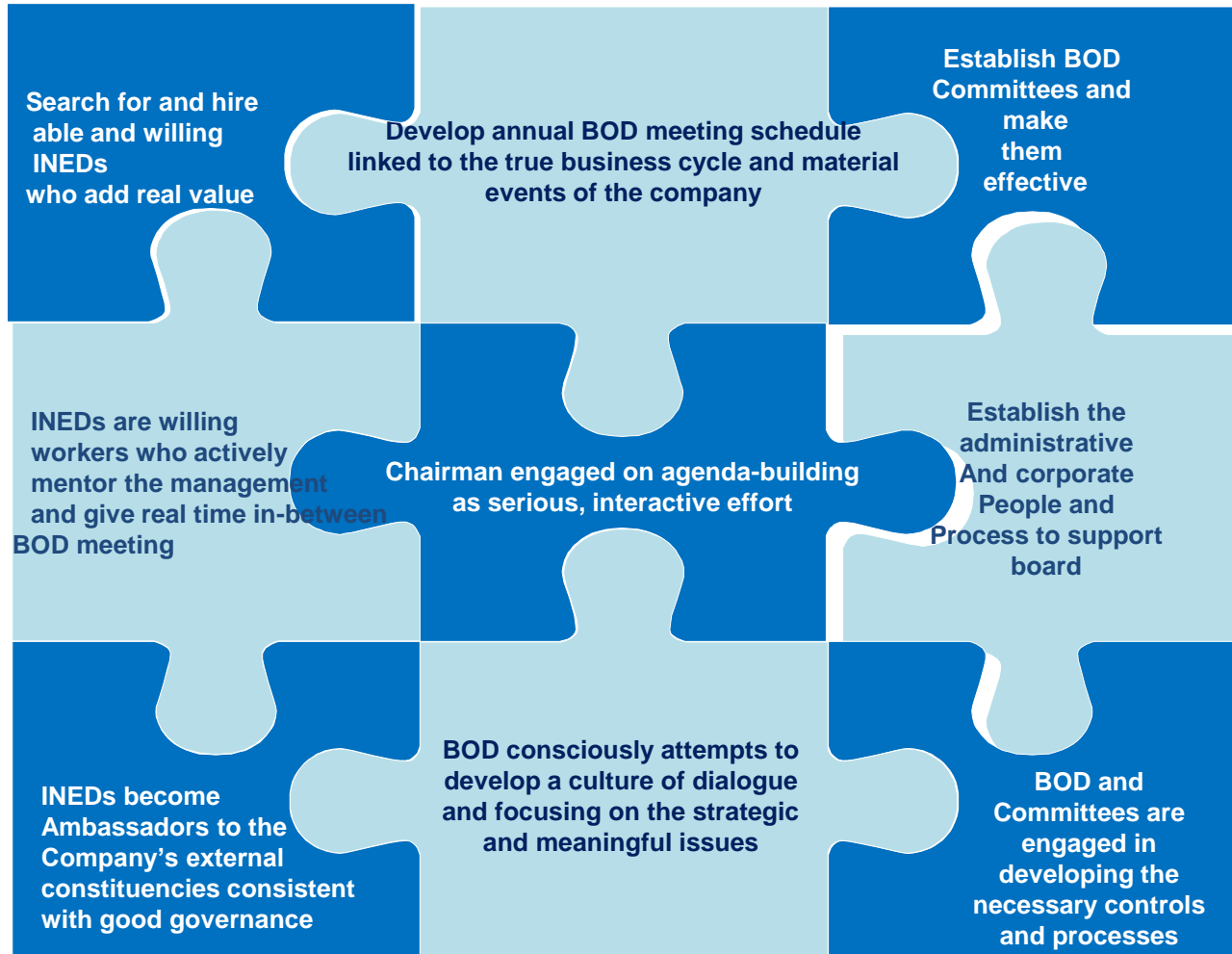
+ NO COMPETENT DIRECTORS WITHOUT D&O

=

NO IPO WITHOUT D&O



PUZZLE PIECES TO ALIGN SUCCESSFULLY





COMMITTEES

Audit

Remuneration and Positions

Strategy

Governance

(Who? What areas to focus on? Financial, industry and “HR” skills? INEDs as teachers)

MEETINGS



How Many?

Developing the annual calendar

Sticking to “it” -- serious, discipline!!!

Culture in the Meetings

Meeting Structure

Reports (CEO, Finance)

Dialogue

Corporate Adminis-trivia

***SHOULD YOU HIRE A GOVERNANCE
CONSULTANT?***



HOW TO PICK INEDs

How Many?

Search firm or not?

Value at operational level

Gravitas / Connections



THERE ARE MODELS OF ‘ENGAGING IN QUALITY GOVERNANCE’ -- Uralkali

**PREMIUM LISTING IS AN EVEN FURTHER STEP --
Polyus Gold**

Why Bother?



QUESTIONS????