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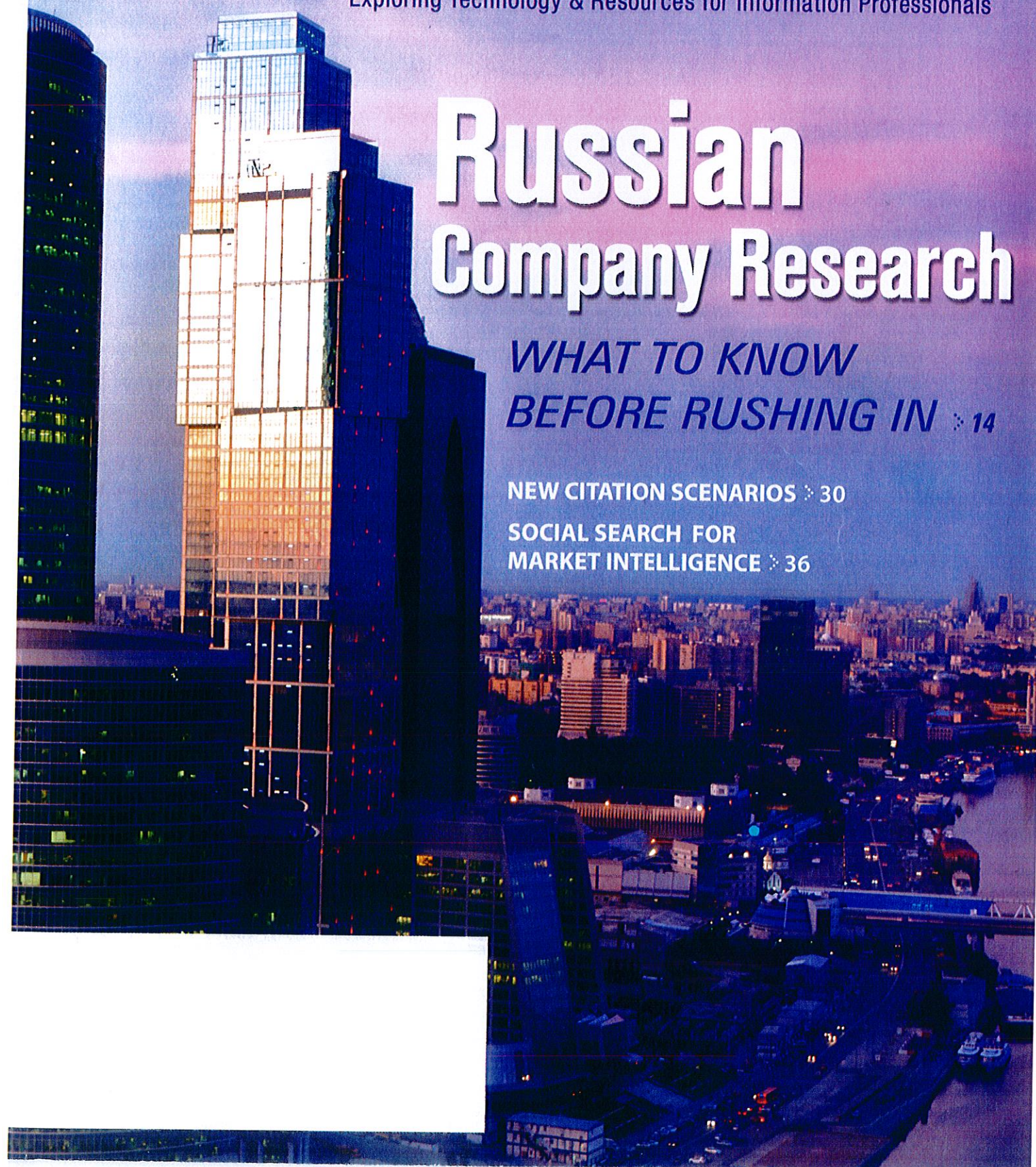
Exploring Technology & Resources for Information Professionals

Russian Company Research

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An aerial photograph of a city, likely Moscow, at dusk. The city is illuminated by warm lights, and a large river flows through it. A bridge with a blue and white structure spans the river in the foreground. The sky is a mix of purple and blue.

Russian Company Research

What to Know Before Rushing In

by Anne-Marie Libmann

Russia is one country that those seeking new markets, new investment opportunities, or new corporate locations consider. Why? Because these businesspeople see a more transparent society, a stronger economy, and an improved business climate. They understand that, although there are risks, careful business planning can mitigate some of these risks. Information professionals and business analysts can play a decisive role in this process. To do so, they need to know both about the structure of the financial reporting system and the specialized sources of data.

Searching financial information on companies is a strategic activity for information professionals, as well as for planning and business development, marketing, and mergers and acquisitions (M&A) departments. Solid financial information is golden—and necessary for carrying out due diligence research, evaluating partners, scoring customers, analyzing competitors, and securing global business.

In practice, these searches are always a challenge. As a rule of thumb, you can say that, except for listed companies, the difficulty is inversely proportional to the size of the company.

When it comes to Russia, with its attendant stereotypes, it sometimes seems like mission impossible. Any serious attempt of searching, collecting, verifying, and analyzing financial data, looks, well, nonserious. Phrases such as “poor, not reliable information” and “lack of control and transparency” come very easily to mind. This inhibits rational thinking and dealing in a professional manner with the complex issues of financial information investigation.

This is not to deny the reality that individual research projects can be tough. However, there is good news for researchers: Company financial information does exist in Russia and it is a rather competitive landscape, with valuable professional databases and portals. Moreover, consulting services from Russian accounting and business information specialists are easily available, so your questions won't remain unanswered.

COMPANY REGISTRATION

In Russia, company registration is compulsory. All legal entities have to file accounts except sole proprietorships and farms, which are not legal persons. No company, even privately held, can use the pretext of commercial secrets for hiding accounts. That said, carelessness and intentional concealment do exist.

In this respect, precise statistical comparison with other countries is hard to find.

I cannot stress enough the importance of not restricting company information search only to the financials. You must enlarge it to other information sources. Look longer and deeper. Search as widely as possible the company's history, environment and market, links with other companies, business owners, and all possible information. Use numerous Russian media sources, investigation papers, legal databases, analytical papers on companies, and sectors analysis from experts. Be creative. For example, think of mortgages registers to check pledged property, such as an automobile (except for police-registered vehicles).

Many Russian companies—probably more than Western companies—are multi-activities companies. For example, one company produces and sells products, but acts also as a reseller or distributor for other national or foreign companies. Without any detailed information on these activities and their impact on accounting—very hard to assess—global accounts are of low significance.

LANGUAGE BARRIER

A difficult issue is the language barrier. Searching for information about a company means navigating a lot of databases and websites to collect and check various kinds of data, both quantitative and qualitative, in order to get an extensive view of the company. You can hardly manage the whole process without knowledge of the Russian (Cyrillic) language. Even using western company databases with English interfaces presents you with questions of variant transcription and transliteration of companies' names, geographical locations, family names (here additional complexity is introduced by the system of patronymics and diminutives), and other textual information, not to mention difficulties arising from recent political events in the ex-Soviet area (renaming, for example, Leningrad back to St. Petersburg).

To take some basic examples, Rusal's alumina subsidiary located in Achinsk (French name: Atchinsk), may be found under the following names in English interfaces: "RUSAL Achinsk," "RUSAL Achinsk Alumina Refinery," or "RUSAL Achinskii Glinozemnyi Kombinat." The city Екатеринбург may be transcribed into English as Yekaterinburg or Ekaterinburg, while it will be transliterated differently in other languages (it's Jekaterinburg in German). I've also found Iekaterinbourg, Iekaterinburg; Iékaterinbourg; Iékaterinburg, Yekaterinbur, and Yekaterinbour! Finding the correct company may require a lot of creativity and cross-checking of different elements (business name, activity, address, and so on). In the final analysis, you sometimes

won't be completely sure you performed an efficient global search without knowledge of the Russian language.

PLACING SEARCH IN RUSSIAN CONTEXT

Understanding local accounting context and rules is a prerequisite before searching and using data. Here are some guidelines for entering the Russian world.

In her very interesting academic dissertation ("The Quality of Published Accounting Information in Russia," June 2010; <http://herkules.oulu.fi/isbn9789514261985/isbn9789514261985.pdf>) Alexandra Bagaeva explains that accounting inherited from the Soviet era has encountered big changes over the last 2 decades since the collapse of the Soviet Union. These include a number of economic reforms, the development of a stock market, the formation of an entirely new accounting system, and the formation and initiation of the accounting and auditing profession.

Two factors play a huge role in the transformation of the Russian accounting system—foreign investors acting as a stimulus for providing better quality information that is useful for decision making and the progressive integration of International Financial Reporting Standards (IFRS), aimed primarily at investors' needs while Russian Accounting System (RAS) continues to be targeted at tax authorities.

It will be important to pay attention to the new federal law, "On financial accountability," scheduled to come into effect on January 1, 2013, which will replace the previous version (in place since November 1996) and set new requirements (<http://gaap-ifs.com/news/124019>). For their part, Russian public companies should start reporting consolidated results under IFRS by the first half of 2013 (<http://en.rian.ru/business/20110310/162942704.html>).

It is also critically important to understand Russian accounting standards before starting data analysis. Unfortunately, this site (www.buhgalteria.ru/forms/buhhotchenost), which has downloadable financial forms, is only in Russian with no English language equivalent. You can, however, find a comparison, in English, of Russian accounting with U.S. Generally Accepted Accounting Principles (GAAP) published by Russia Briefing (http://russia-consulting.eu/Files/booklets/Russia_Briefing_%20November_%202010.pdf).

The main differences between IFRS and RAS concern rules for provision and depreciation (of doubtful debt or fixed assets) so "reading" financial accounts in RAS means being able not only to transpose accounts but also to "correct" discrepancies.

Last but not least, the audit requirement's issue must also be considered. Except for the largest listed companies and privately held ones under certain conditions, Russian companies are not required to undergo an annual audit, and, even being performed, an audit does not necessarily bring much more reliability.

OFFICIAL INFORMATION

Generally, Russian providers of company information display on their websites the list of the sources they use. Most



of them are official state bodies or organizations—some selling information directly to users and sometimes providing additional services. This could be cheaper than subscribing to commercial databases, although it means surfing Russian legal information websites in Russian (with a very low rate of pages translated into English). These sources help you understand the system of Russian company information and the nature and quality of provided data.

The Federal Statistics Service (Rosstat) supplies information from its database of financial statements and the General State Register of Enterprises.

The Federal Financial Markets Service (FFMS) provides information about company structure, financial statements, securities, business, and many other issues, as open

shares—zakrytoe aktsionernoe obschestvo; ZAO). Not much data can be found for limited liability companies (obschestvos organichennoy otvetstvennostju; OOO). Small companies usually file the first two accounting forms (balance sheet and income statement), whereas large and medium-sized companies file the whole set.

COMMERCIAL DATABASES

When it comes to commercial databases, coverage is always the same for all databases—6.5 to 6.6 million registered companies, of which 4 to 4.5 million are active companies, with 600,000 to 700,000 annual financial accounts being updated. The figure of 7 to 8 million as a total number of registered companies is sometimes given, but defining



You can access Russian data through the Orbis or Mint databases. You can also choose the special local database Ruslana, dedicated to Russian company information (including the Ukraine and Kazakhstan).

and closed joint stock are required to disclose information such as share issue prospectuses, quarterly reports, and releases on major events.

The Federal Tax Service supplies information from the Consolidated State Register of Legal Entities (EGRUL) which contains registration data, company names, single state registration numbers, ownership forms, information related to liquidation, reorganization, and other matters according to the federal law. The tax service also supplies all data from the Unified State Register of Individual Entrepreneurs (EGRIIP).

The Central Bank of Russia provides financial statements of all Russian banks.

Other sources are the Ministry of Finance (federal treasury services), arbitrage courts, Depository Clearing Company, and the newspaper *Kommersant*, which publishes information about bankruptcies.

Companies have until April 1 of the year that follows the financial year to file their annual accounts for the tax authorities. Year-end financial statements are available from Aug. 1 of the following year from the State Statistics Committee. Accounts are generally available in databases in September. Fiscal year is the calendar year.

From a statistical point of view, the best rate of accounts filing is performed by large enterprises, established in the form of open joint stock companies (publicly held shares—otkrytoe aktsionernoe obschestvo; OAO), which give accounts on a quarterly basis to the FFMS. They are followed by the closed joint stock companies (privately held

what it really means is not easy. Almost all databases provide figures for insurance companies (700 to 800 units) and banks (1,500 to 1,700), as well as for about 1.5 million Ukrainian and 350,000 Kazakhstan companies.

Taking into account this relative uniformity, the criteria of choice between the numerous Russian databases will be linked to the analytic services and quality of search interfaces, which can be very different. Concerning global databases provided by western companies, a clear benefit, aside from the key language issue, is to offer a worldwide scope that allows researchers to find connections among companies, managers, and shareholders across the world. This is particularly useful for Russian companies' beneficiaries established by foreign offshore companies.

BUREAU VAN DIJK

Among Western data vendors, I consider Bureau van Dijk (BvD; www.bvdinfo.com) as a very reliable provider, offering high quality services and high value interfaces that provide advanced searching and complex analysis. You can access Russian data through the Orbis or Mint databases. You can also choose the special local database Ruslana, dedicated to Russian company information (including the Ukraine and Kazakhstan). Data provided are company financials with up to 10 years of history, directors, shareholders, subsidiaries, stock data for listed companies, detailed corporate structures and corporate family information, business and company-related news, M&A deals, and rumors.

BvD's data are sourced from two Russian partners, who also provide, on their own platforms, company and business information databases (in English and Russian languages):

- Creditreform Russia is affiliated with the German organization Creditreform and hosts on its website a huge database, CrefoPort (www.crefoport.ru), offering comprehensive services focused on the solvency of Russian companies (business reports with a solvency index, credit opinion, financial data, and various services regarding debt collection, direct marketing, and solvency monitoring).
- The independent national information agency CredInform, which had a co-operative agreement with Creditreform until 2007, (www.credinform.ru/index.php?lang=en&hid=73&path=index), offers a wide range of services on companies—credit business reports on Russian companies (and from CIS countries), financial rating, solvency monitoring on partners and consumers, reports on banks and banking activity, consulting services on financial and legal matters, debt collection services, and additional services such as market research.

DUN & BRADSTREET

Using Dun & Bradstreet, Inc. (D&B) is inevitable, regrettable as is the quality of their service and sometimes very poor commercial attitude. D&B teamed up with the leading Russian news agency Interfax Information Service (www.interfax.com) in 2008. Interfax's SPARK database

was integrated into the D&B database and reformatted according to D&B standards. As a result of the deal, D&B has considerably widened the scope of its database and SPARK's Russian subscribers in turn get access to D&B worldwide data.

Russian companies are available as standard SPARK reports, both in Russian and in English. D&B Business Information Reports are now available in English and Russian for most countries. Data include companies' identification data, affiliated companies, registration/liquidation data, financial statements, principals' background, and D&B ratings. Analytical reviews on different sectors of the Russian economy are prepared by Interfax experts annually and are issued in English and Russian.

There is still room for improvement in the whole system. The company search option on the D&B page for Russia (www.dnb.ru/default.asp?lng=1) leads directly to the SPARK database (www.ispark.ru/en-US/default.aspx), which offers a double menu. In the SPARK menu, you can search by typing, as generally in Russian databases, Russian companies' codes.

Each Russian company has unique parameters that enable researchers to identify the company unambiguously. In Russia, there may be companies with similar names but there are no two companies with the same Primary State Registration Number (OGRN) or same Taxpayer Identification Number (INN). You can also search by Russian National Classifier of Enterprises and Organizations (OKPO). In the D&B menu, you can use the Duns Number. For some reason, you don't get the same

Orbis - company report of RUSAL Achinskii Glinozemnyi Kombinat

RUSAL Achinskii Glinozemnyi Kombinat			
662100 ACHINSK, Russian Federation Private company The GUO of this controlled subsidiary is DERIPASKA OLEG		BvD ID number RU05765164 Latest account date 31/12/2010	
Contact information			
662100 ACHINSK Russian Federation Federal district Kras Krasnoyarsk Territory		Telephone number +7 39151 77654 Fax number +7 39151 75395 Website address www.rusal.ru	
Identification numbers			
Identifier		Type	
BvD ID number RU05765164		Statistical number	
BvD account number RU05765164U		VAT number	
OKPO 0570364		Trade register number	
INN 2443005570		JP identification number	
OGRN 1022401155325		JP identification number	
VWB number 400520R		JP identification number	
VWB number KUS-UUUU4U052		JP identification number	
Legal & account information			
Also known as RUSAL ACHINSK			
Status	Active	Last available year	2010
National legal form	Open joint stock company - OJSC	No. of available years	10
Date of incorporation	1995	Account published in RUB	Unclassified
Type of entity	Industrial company	Available accounts	Local registry filing
		Filing type	Accounting template Industrial company
Size & group information			
BvD major sector Metals & metal products			
Category of the company Very large company		BvD Independence D	
Operating revenue (2010) 494,829 th USD		Indicator	
P/L for period (2010) 33,269 th USD		No of recorded shareholders 1	
Total assets (2010) 404,452 th USD		No of recorded subsidiaries 8	
Number of employees (2010) 2,955		No of recorded branches 1	

The Orbis database from BvD provides advanced searching and complex analysis for Russian companies.

SPARK database interface showing a list of companies with columns for company name, INN, OGRN, and other identifiers.

The special local database Ruslana is dedicated to Russian company information.

SPARK database interface showing a search results page with columns for company name, INN, OGRN, and other identifiers.

Interfax's SPARK database, with its English interface, looks familiar to those who search D&B on a regular basis.



results when entering a Russian company name in the two different menus, not to mention a rather strange truncation behavior in D&B's menu.

INTERFAX

Through its joint venture with Interfax, D&B has led several initiatives on the Russian market, such as the recent development of the scoring model Due Diligence Index Russia to identify so-called shell or single-transaction companies established with a purpose of possible financial fraud. An earlier project was the launch in Russia of the Trade Exchange Program, a payment monitoring system, aimed at managing credit and nonpayment risks in Russia.

As D&B does not provide any particular analytic or outstanding functionality, contracting in a direct mode with the Interfax SPARK database for searching Russian companies could be a better deal in terms of pricing and servicing quality, since Interfax is a very reactive and helpful partner. SPARK has English language data (www.spark-interfax.ru/Front/index.aspx). You can do a comprehensive search in conjunction with Interfax's SCAN database (System of Complex Analysis of News). This contains key federal and regional media, wires of key news agencies, business newspapers, political publications, industry and scientific journals, transcripts of federal and regional TV channels and radio stations. SCAN is the only database providing the whole archive of Interfax's news starting from 1989.

On the Russian side, with a Russian interface and data mostly in Russian language, there are numerous systems, very rich and professional.

BIR ANALYTIC

The BIR Analytic system (<http://bir.1prime.ru>), which is one of the biggest systems, offers multiple and powerful analytical functionalities. The system was created by the business news agency PRIME, which releases live newswire (available in English; www.1prime.biz/default.aspx). Import-

tantly, it also makes available annual reports (powered by RUSTOCKS.com, the first investor-relations English-language web portal, which aggregates original corporate materials, company profiles, Russian stock market data, brokers' forecasts and research, as well as a news line and press clippings of major market events).

BIR Analytic provides information on all registered entities of the Russian Federation, as well as a set of indicators on the socio-economic situation of 97 regions and 1,066 Russian cities. Company information includes registration data, financial accounting according to both Russian and IFRS standards, information on shareholders and subsidiaries, various ratios and ratings, industrial output figures, bankruptcy filings, and news. BIR Analytic provides specific indicators for insurance companies through a special agreement with the State Register of Insurance and different activity indicators and tariffs for the 120 largest banks.

DISCLOSURE AND TRANSPARENCY

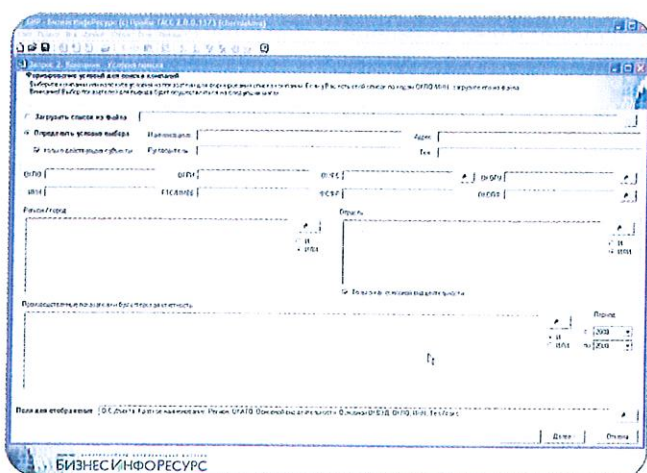
SKRIN (www.skrin.ru) offers approximately the same coverage as BIR Analytic, but with a much less sophisticated interface, supplementing data with news and analytical research reports on companies, industrial sectors, as well as statistics provided on regions and economic sectors (using the OKVED national classification code for types of economic activities and OKP, the national classification of products). Founded by the National Association of Securities Market Participants and now part of RTS Stock Exchange, SKRIN focuses on corporate disclosure. SKRIN is one of the official agencies authorized by FFMS to supply public information disclosed on the stock market.

Corporate information disclosure is a very important issue in Russia, as it contributes to market transparency, particularly toward the international investment community. As already mentioned, the main corporate governance requirements are set in the federal laws and regulations. In addition to SKRIN, a few other agencies are accredited by FFMS to ensure disclosure activities: Interfax (www.e-disclosure.ru); PRIME (<http://disclosure.1prime.ru>); AK&M Information Agency, a leading independent provider of Russian real-time political, economic, financial, and stock market news (www.disclosure.ru/index.shtml); and AZIPI, the Association for the Protection of Investors' Rights Information (<http://e-disclosure.azipi.ru>). Other portals such as Lin (www.lin.ru) or RUSTOCKS.com (www.rustocks.com) develop best disclosure practices programs for issuers.

RUSSIAN PORTALS

Besides these main providers standing at center stage, there are numerous Russian portals. These portals provide business information with a strong innovative approach aimed at marketing services, commercially aggressive argumentation, and comparison with big competitors' services. Usually these portals are not restricted to financial reports.

For example, Kommersant Kartoteka, formerly the information agency Valaam (www.kartoteka.ru), has developed a

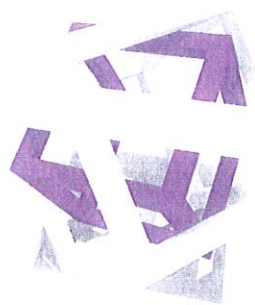


BIR Analytic provides information on all registered entities of the Russian Federation, as well as a set of indicators on the socio-economic situation of 97 regions and 1,066 Russian cities.

unique monitoring system that lets you follow the most important legal events of Russian companies (up to 10 companies simultaneously). This information is sourced from the Bulletin of the State registration (www.vestnik-gosreg.ru), which was founded by Kommersant Kartoteka in partnership with the Federal Tax Service. It provides data from the EGRUL and from the newspaper *Kommersant*, which is the official publisher of bankruptcy notifications.

I will close this nonexhaustive list of portals with Prima-inform (www.prima-inform.ru), which offers a direct and efficient access to the different state official sources of Russian information described previously. The company

- Specialized sources on economic sectors and companies, such as Expert (<http://expert.ru>).
- The website of the State Statistics Committee, or Goskomstat (www.gks.ru/eng), which supplies a broad range of statistical material.
- Rating agencies, even if they still focus more on banks than on companies: RusRating (www.rusrating.ru), AK&M Information Agency (www.akm.ru/eng), the National Rating Agency (www.ra-national.ru), and Expert RA (<http://raexpert.org>).
- The website of the Central Bank of Russia (www.cbr.ru/eng), which contains the financial accounts



Winston Churchill described Russia as 'a riddle wrapped in a mystery inside an enigma.' The same is somewhat true for Russian companies.

provides Russian company reports in English (www.prima-inform.com) and a monitoring service of legal entities, which automatically tracks changes in EGRUL.

To reiterate, for a valuable assessment of a Russian company, information searches should not be limited to financial accounts. They must be completed with a thorough analysis of the company's activities, using additional information sources. These include:

- Huge online libraries of Russian press publications. These include, for example, Public.Ru (<http://public.ru/englishversion>), which offers deep content and advanced search functionalities, or Integrum (www.integrumworld.com), one of the biggest news and media vendors, combining access to publications with financial and extensive company information.

of banks, as well as macroeconomic and financial information. You can generate reports directly from the website, combining various indicators data on companies, with breakdowns by regions (here the English version is very weak, compared to the Russian one).

- Legal information sources: Two competing databases are widely used, Garant (www.garant.ru) and Consultant Plus (www.consultant.ru).

Winston Churchill described Russia as "a riddle wrapped in a mystery inside an enigma." The same is somewhat true for Russian companies. Not that they intend to hide their financial situation from their partners—they fear Russian administration more than competitors. However, the very rules for producing financial statements and for information disclosure are still not operational enough, despite considerable progress. In this context, diversified information sources, search expertise, as well as methodological support for dealing with Russian accounting standards and anticipating changes of business environment, seem to be key success factors for a foreign business contemplating doing business in Russia.



Kommersant Kartoteka's unique monitoring system lets you follow the most important legal events of Russian companies (up to 10 companies simultaneously).

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