

# Navalny Elected to Aeroflot Board

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Navalny attending a nationalist rally in Moscow on Unity Day, Nov. 4. **Igor Tabakov**

Alexei Navalny, the bane of both the Kremlin and state corporations, found himself elected to the board of state-owned Aeroflot on Monday — and immediately promised to create an anonymous complaint system to improve governance at the flagship airline.

Navalny, the anti-corruption blogger and opposition leader, was installed as an independent member of the board after winning more than 787 million votes at the airline's annual shareholder conference.

He announced his victory on Twitter with a euphoric: “Fly Aeroflot!”

Before rising to prominence as a leader of the anti-Kremlin movement that has staged huge protests since disputed parliamentary elections in December, Navalny was best known as a whistleblower who became a minority shareholder in state-controlled companies in order to expose corruption.

Earlier this month his home and the offices of his Rospil anti-corruption campaign group were raided by police investigating violence at an opposition rally on May 6.

“Aeroflot will help me escape investigators. I'll live on an airplane, like the teacher in ‘The Adventures of the Italians,’” he joked on Twitter, referencing the 1974 Soviet comedy “The Unbelievable Adventures of Italians in Russia.”

Aeroflot is 51.17 percent owned by the state. Its authorized capital consists of 1.11 billion shares.

Navalny was nominated in February by billionaire banker Alexander Lebedev, who owns a 15 percent stake in Aeroflot through his National Reserve Bank.

Lebedev split his votes between Navalny and Sergei Alexashenko, a Higher School of Economics professor who was also elected as an independent board member, Navalny told Forbes.ru.

Writing on his blog, Navalny thanked financial advisers ISS & Glass Lewis, which had advised their clients to back him as an independent who could be relied upon to serve minority interests.

Analysts said the move was positive for Aeroflot, as they expected Navalny to push minority shareholders interests and improve corporate governance to make the company more sustainable over the long term.

This will be the first time that Navalny has had an opportunity to improve governance from the inside of one of Russia's state corporations.

Navalny said he planned to introduce a six-step plan for corporate governance at the airline.

“It's a complex of measures, starting from the creation of a system under which all reports of abuse will go to an auditing committee, and independent directors on that committee will be responsible for checking the signal, and ending with the publication of quasi-secret documents to all shareholders,” he told Forbes.ru.

Aeroflot remains one of the few high-profile state-controlled firms that Navalny has not crossed swords with in his career as an activist investor, and he reiterated his faith that it “is not a particularly sinister company; it's not Gazprom or Rosneft.”

The relative respect seems to be mutual. Aeroflot chief Vitaly Savelyev has said that Navalny's corruption-fighting experience could be a boon for the airline.

By contrast, Rosneft president Igor Sechin last week accused Navalny of spying for competitors. Navalny, who is a minority shareholder in Rosneft, is pressing the oil firm to release the minutes of all meetings of the company's shareholders and the board of directors for 2009.

Navalny will replace National Reserve Bank's previous independent director, so his arrival is not revolutionary, said Andrei Rozhkov, transportation analyst at IFC Metropol.

“But he is more ambitious and, I think, likely to pursue minority shareholder interests and the improvement of corporate governance more vigorously,” he said.

Specifically, Navalny could ask the board and management to announce their dividend payout ratio and ask for quarterly dividends, which would encourage minority shareholders to invest in the airline, he said. Currently, Aeroflot only issues annual dividends.

Other analysts were more circumspect.

“I'd say it is neutral for the company,” said Vladimir Dorogov, an aviation analyst at Alfa Bank. “Aeroflot has managed to improve its corporate governance over the past three years quite substantially, I don't see any specific opportunities for Navalny to improve things — just marginal stuff.”

Lebedev's motives for nominating Navalny remain opaque. The former KGB officer, who also owns Britain's Independent and Evening Standard newspapers and with Mikhail Gorbachev controls the opposition-minded Novaya Gazeta newspaper, has been publicly critical of the authorities, and appointing Navalny would be very much in line with his stated political views.

But commenting on the job at the time of his nomination in February, Navalny told The Moscow Times that Lebedev had approached him for his “professional skills.”

"I have a clear, understandable program to improve corporate governance in state-owned or state-controlled companies, which applies to Aeroflot," he said.

Dorogov, at Alfa Bank, speculated that the airline might be seeking to capitalize on Navalny's anti-corruption reputation.

“Actually it is difficult to tell what Lebedev's motives are for doing anything. It sometimes seems he does things for no other reason than to upset people,” he said. “In any case, the state could probably have stopped this if it had wanted to. So it is a positive sign that the government is not interfering in business affairs.”

Navalny said state shareholders had not voted for him, and insisted that the government had not accepted him on the board of its own will.

Navalny's appointment is unlikely to impact analysts' recommendations to investors regarding Aeroflot shares, which were generally positive but fraught with concerns that face the entire aviation sector.

“He cannot change the fundamentals — he can't reduce the oil price, which is over 30 percent of the airline's operating costs, or bring down ticket prices,” Rozhkov said.

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