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The review provides a detailed analysis of main trends in Russia's economy in 2011. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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## 6.1. Public Sector Status and Privatization Process

### 6.1.1. Public Sector Share of the Russian Economy

The quantitative federal property data<sup>1</sup> from official sources (*Table 1*) proves with assurance that in 2011 the total number of property assets registered with the federal property register decreased by more than 12% against the peak (1.562 million items) in the beginning of 2011. As of the beginning of 2012, however, it outstripped the value reported two years ago.

*Table 1*

#### The number of organizations using federal property, and property assets registered with the federal property register in the period between 2008 and 2011 (units)

Date*	Federal State Unitary Enterprises (FSUEs)	Business entities (JSCs and LLCs) with federally held share (interest)		Total number of federal property assets registered with the registry	
		Total	special right ("golden share") without interest holding	on paper	in the Computerized Federal Property Accounting System (CFPAS)
as of January 1, 2008	5709	3801/3647**	127	...	...
as of January 1, 2009 (December 31, 2008)	3765	3503/3338**	136	701325	14096
as of January 1, 2010 (December 31, 2009)	3517	3066/2920**	117	1276572	1193121
as of January 1, 2011 (December 31, 2010)	...	3077	120	1562018	1552121
as of January 1, 2012 (December 31, 2011)	...	2930***	111	1371266	1367975

\* – according to the quantity of federal property assets registered with the registry in the CFPAS as of December 31 of the relevant year;

\*\* – only JSCs as denominator;

\*\*\* – as of December 28, 2011, including 2794 JSCs, 25 LLCs and 149 JSCs with the special right of the Russian Federation to participate in management ("golden share") (without a federally held interest in 111 of them), 2822 JSCs with state participation are managed through the Federal Agency for State Property Management.

Source: Forecast Plan (Program) for the Federal Property for 2009 and the Guidelines of Federal Property Privatization for 2010 and 2011, the Forecast Plan (Program) for the Federal Property for 2010 and the Guidelines of Federal Property Privatization for 2011 and 2012, the Forecast Plan (Program) for the Federal Property and the Guidelines of Federal Property Privatization for 2011–2013; the data of the Ministry of Economic Development and Trade of Russia on the basis of the federal property register, [www.rosim.ru](http://www.rosim.ru).

<sup>1</sup> In 2011, given the Forecast Plan (Program) for the Federal Property Privatization for 2011-2013 approved at the end of November 2010. No new annual privatization program was approved by the Russian Federation Government, as it did in the 2000s. In the meantime, it is these documents that traditionally contained the data on the quantity of federally held enterprises (FSUEs) and joint stock companies with a state-held interest as of the beginning of the calendar year. Therefore, there is no sufficient information that would allow an impartial judgment to be made as to the dynamics of these components of the public sector in 2011, however, the federal property registry's data allows evaluation of the trends in the movement of the total number of the registered companies and business companies with a state-held interest.

The aggregate quantity of business entities with state participation also decreased by 4.8% in 2011, however, it decreased by much more in 2008 and 2009, whereas a small growth was reported in 2010. As a result, the number decreased for the first time below 3,000 as of the beginning of 2012<sup>1</sup>. The number of JSCs which are subject to a special right of state participation in management thereof (“golden share”) (about 100 companies) was also minimum throughout the entire 2000s.

The turn back in the upward trend, which developed as early as the mid-2000s, towards share holding which allows the state to realize a comprehensive corporate governance at business entities, became a new phenomenon in the corporate sector with state participation in 2011 (Table 2).

Table 2

**Dynamics and quantity structure of business entities with state capital participation (save for JSCs which are subject to a special right (“golden share”) without interest holding) in 2008 – 2011**

As of January 1	Business entities (JSCs and LLCs) with federally held share (interest)											
	Total quantity	interest, %	state-held interest									
			100%		50–100%		25–50%		2–25%		less than 2%	
			q.	%	q.	%	q.	%	q.	%	q.	%
2008	3674	100.0	1989	54.1	269	7.3	645	17.6	421	11.5	350	9.5
2009	3367	100.0	1850	54.9	202	6.0	503	14.9	305	9.1	507	15.1
2010	2949	100.0	1688	57.2	167	5.7	377	12.8	296	10.0	421	14.3
2011	2957	100.0	1840	62.2	136	4.6	336	11.35	265	9.0	380	12.85
2012*	2819	100.0	1617	57.4	112	4.0	272	9.6	254	9.0	564	20.0

\* – as of December 28, 2011

Source: the data provided by the Ministry of Economic Development and Trade of Russia on the basis of the federal property register, IET’s estimates.

As of 2011 year-end, the state could have a minority or majority controlling interest in more than 61.4% of all the entities (the level as of the beginning of 2008) against 67% in the preceding year.

Such a shift resulted from reduction in the total structure of federal share holding (interest holding), both full share holding (100% participatory interest) from 62.2% to 57.4% and majority share holding (more than 50%, but less than 100% of equity) from 4.6% to 4%. Blocking share holding (from 25 to 50% of equity) decreased much more (more than 1.5 percentage points (p. p.)), whereas minority share holding (up to 25% of equity) increased considerably (less than 22% to 29%) through the increase (less than 13% to 20%) in the smallest share holding (less than 2% of equity). A special emphasis should be placed on the doubled growth in the latter category of federal share holding (interest holding) vs. the pre-crisis period, while only full share holding (interest holding) saw a small increase of only 3.3 p.p. among other categories.

In the period between 2008 and 2011, the absolute number of majority, blocking share holding (interest holding) decreased by almost 60% as well as the share holding (interest holding) accounting for 2% to 25% of equity. Full share holding decreased by much less (less than 19%). The same trends were reported in 2011. However, the number of the smallest share holding (interest holding) increased 1.6 times vs. as of the beginning of 2008, 1.5 times in 2011, while their number was getting smaller in 2009 – 2010 after a rapid growth in 2008.

<sup>1</sup> Considering only business entities with a state-held interest (exclusive of JSCs which are subject to the “golden share”), the given value was reached as early as the beginning of 2010.

The upward trend for the minority share holding, especially the smallest share holding during and after the economic crisis is questionable. Its negative nature is quite obvious, because the size of such share holding gives no opportunity to the state to either sell at best or provide sufficient control over business entities.

Regarding trends in the structure of the whole body of property assets registered with the federal property registry (according to the data provided by the CFPAS), they can be seen through the data provided in *Tables 3* and *4*.

*Table 3*

**Dynamics and structure by type of the federal property assets registered with the federal property registry, in 2008 – 2011**

As of December 31	Total quantity of immovable and movable property assets, total		by type					
			immovable property assets (save for land plots)		land plots		movable property assets	
	q.	%	q.	%	q.	%	q.	%
2008	14096	100.0	7538	53.5	1517	10.75	5041	35.75
2009	1193201	100.0	600842	50.35	116274	9.75	476085	39.9
2010	1552121	100.0	718114	46.3	165281	10.6	668726	43.1
2011	1367975	100.0	800143	58.5	192825	14.1	375007	27.4

*Source:* the data provided by the Ministry of Economic Development and Trade of Russia on the basis of the federal property register, IET's estimates.

It should be reminded that paper inventory of the federal property assets registered with the state federal property database as of the effective date of Russian Government Order No. 447, dd. July 16, 2007 was completed by the beginning of the summer of 2010. This hard work on converting the relevant data into e-format by entering thereof to the Computerized Federal Property Accounting System in 2010 – 2011 allowed the paper data to be covered almost in full with the relevant e-data (*Table 1*).

As of 2011 year-end, immovable property assets (58.5%) dominated in the structure of federal property, which was also typical of the previous periods (except as of the end of 2010). The category of movable property assets was ranked #2. These items decreased from 43.1% to 27.4% during the year, mostly because in April thru May 2011 movable property assets with a value of less than Rb 500,000<sup>1</sup> were withdrawn step by step from the CFPAS. Land plots account for a total of about 14% of federal property assets, but this has been the max. value over the recent few years. It should also be noted in this context that the area of federally owned land plots has increased more than 1.7 times to reach 1,007,938,198 ha over the recent eighteen months, as based on the data provided by the Federal Agency for State Property Management<sup>2</sup>. Such a growth could result from intensified delimitation of public ownership of land by level of public authority and state registration of the Russian Federation ownership of land plots.

A major part (more than 2/3 as of 2011 year-end) of the federal property assets are secured for titleholders on the basis of operational management basically applicable to government agencies. The process of reducing the number of unitary enterprises is also reflected in the structure of federal property, where a pronounced reduction trend in the property assets secured on the basis of economic management, however, in 2011 it remained almost at the level

<sup>1</sup> The foregoing movable property assets were excluded because Order No. 47 issued by the Government of Russia on February 4, 2011 entered into force, under which the minimum initial value of movable property assets regarded as stand-alone property was to be increased from Rb 200,000 to Rb 500,000.

<sup>2</sup> www.rosim.ru.

reported in the previous year (nearly 18% vs. more than 24% as of 2008 year-end). Furthermore, a share of federal treasury items increased slightly (about 15% vs. 11 to 12% in 2009 – 2010) in the previous year.

Table 4

**Dynamics and structure of the federal property assets registered with registry by category of titleholders, in the period between 2008 and 2011**

As of December 31	Total quantity of Total quantity of immovable and movable property assets, total		By category of property right					
			secured for titleholders on the basis of economic management		secured for titleholders on the basis of operational management		constituting a state treasury of the Russian Federation *	
	q.	%	q.	%	q.	%	q.	%
2008	14096	100.0	3418	24.2	8202	58.2	2476	17.6
2009	1193201	100.0	226818	19.0	827234	69.3	139149	11.7
2010	1552121	100.0	279402	18.0	1096547	70.6	176172	11.4
2011	1367975	100.0	245060	17.9	921252	67.35	201663	14.75

\* – net of business entities' share holding (interest, deposits).

Source: the data provided by the Ministry of Economic Development and Trade of Russia on the basis of the federal property register, IET's estimates.

According to the Rosstat's public sector composition monitoring, the quantity dynamics of public sector economic agents in the period between the mid-2010 and mid-2011 can depicted as follows (Table 5).

Table 5

**The number of public sector organizations registered with territorial offices of the Federal Agency for State Property Management and government bodies for management of state-owned property of the constituent territories of the Russian Federation in the period between 2009 and 2011**

Date	Total*	SUEs, including state-run enterprises	Government agencies	Business entities with more than a 50%	
				state-held share (interest)	share (interest) held by public sector business entities
as of July 1, 2009*	77082**	8706	63019	4007	1350
as of January 1, 2010*	76658**	8122	63087	4089	1360
as of July 1, 2010*	74867**	7230	61493	3915	2229
as of January 1, 2011*	73498**	6761	60266	4051	2420
as of July 1, 2011*	72047**	6245	59483	3928	2391

\* – federal property is subject to accounting pursuant to Russian Government Order No. 447, dd. July 16, 2007, "On the Enhancement of Federal Property Accounting";

\*\* – including organizations whose state registered articles of association registered contains no specific types, but excluding joint stock companies with more than 50% shares (interest) held on the basis of joint state and foreign ownership.

Source: On the development of the public economic sector of the Russian Federation in H1 2009 (p. 7), in 2009 (p. 7), in the first half of 2010 (p. 7), in 2010 (p. 7), in the first half of 2011 (p. 7). M., Rosstat, 2009 – 2011, IET's estimates.

As is seen from Table 5, the total number public sector organizations decreased 6.5% over the two years (from July 1, 2009 till July 1, 2011) (or more than 5,000) to amount to about 72,000 as of July 1, 2011.

The result was achieved basically through a decrease of 28.3% (or almost 2,500) in the number of unitary enterprises. Though the number of agencies decreased much less (5.6%), it was more impressive in absolute value (3,500). The number of business entities with more than 50% state-held interest decreased even less, only 2% (or about 80) July 1, 2011. In this

respect, the number of business entities with more than 50% interest held by public sector business entities, increased more than 1.7 times. Their number grew up more than 1040 to reach almost 2,400 as of July 1, 2011, i.e. the historic maximum throughout the entire 2000s.

Within a period of one year, between the mid-2010 and mid-2011, the total number of public sector organizations decreased by 3.8% (or more than 2,800 entities) basically due to a reduction of 13.6% (or almost 1,000) in the number of unitary enterprises. Though the number of agencies decreased much less, only 3.3%, its absolute value was found to be twice as much as that of unitary enterprises (2,000).

At the same time, the number of business entities with more than 50% state-held interest remained almost at the previous level (3,900 entities). In this context, however, it should be emphasized that the number of business entities with more than 50% interest held by public sector business entities increased (up 7.3%). They grew up more than 160.

The crisis of 2008 – 2009 raised a question of how they effected the state as manufacturer of (works, services) in the economy. The Rosstat's monitoring only partially supports the view of growing state participation in different final figures of economic performance (*Table 6*).

*Table 6*

**Public sector's share according to various indicators  
in the period between 2008 and 2011, %**

Indicator	2008	2009	2010	H1 2011
Volume of shipped goods produced by the company, completed works and services w/o subcontracting :				
- mineral resources production	13.5	11.5	9.8	17.0
- fuel and energy resources production	13.2	11.1	9.0	17.0
- manufacturing sector	8.5	9.5	8.7	9.5
- production and distribution of electric power, gas, and water	13.0	14.0	17.8	22.5
Scope of construction works performed w/o subcontracting	3.6	3.8	4.1	4.1
Passenger turnover at transportation companies *	63.9	63.2	56.1	66.1
Volume of commercial transportation (dispatch) of cargos by transportation companies (net of companies involved in pipeline transportation)	71.1	76.6	78.4	78.5
Commercial cargo turnover performed by transportation companies (net of companies involved in pipeline transportation)	94.3	93.8	93.6	93.7
Communication services **	9.9	13.9	15.2	14.5
In-house research and development costs	72.6	74.4	73.4	73.5
Volume of paid services rendered to the general public	16.3	16.5	18.9	18.8
Capital investments from all sources of financing ***	21.5/ 15.9	22.8/ 17.1	24.5/ 17.8	26.0/ 19.9
Net proceeds from sales of goods, works, services (net of VAT, excise taxes and other similar mandatory payments)	9.8	10.6	18.9	11.7
Average staffing number	24.0	24.6	24.9	25.2

\* – save for municipal electric passenger transport organizations;

\*\* – net revenues from sale of goods, products, works, services (net of VAT, excises and other mandatory payments);

\*\*\* – in the numerator, net of small enterprises and volume of investments which can't be observed through direct statistical methods.

*Source:* On the development of the public economic sector of the Russian Federation in 2008 (c. 13, 43, 45-46, 47, 53, 61-62, 63, 67-68, 88), in 2009 (c. 13, 45, 47-48, 49, 52, 60-61, 62, 66-67, 87), in 2010 (c. 13, 46, 48-49, 50, 53, 61-62, 63, 67-68, 88), in the first half of 2011 (c. 13, 33, 35-36, 37, 40, 43-44, 45, 49-50, 70). M., Goskomstat of Russia (Rosstat), 2009-2011, IET's estimates.

However, as it can be seen from *Table 6*, in 2010 and H1 2011, However, as it can be seen from *Table 3*, in 2009 and H1 2010, like throughout the entire period of 2000', that the public sector had an insignificant share in most indicators (no more than 10–15%), with a slightly

bigger share in the field of investments (more than 15–25%) and employment (24–25%), whereas only cargo transportation (more than 60–90%, depending on an indicator) and internal research and development costs (more than 70%) remained significant exceptions.

However, official statistics reported a small decrease in 2010–2011 vs. 2008 in the public sector's participation share in the field of production and distribution of electric power, gas and water, communication services, capital investments, paid services to the general public, and such a generalized financial indicator as net proceeds from sales of goods, works, services (net of VAT, excises and other mandatory payments)<sup>1</sup>.

A substantial increase of up to 17% in the first half of 2011 vs. 11 to 13% in the period between 2008 and 2009 in the public sector's participation share in mineral production (including fuel and power minerals) should be noted. The same is true with generation and distribution of electric power, gas and water, where at the end of H1 2011 the public sector reached 22.5% (against 13 to 14% in the period between 2008 and 2009), and passenger traffic of transportation organizations in which public sector's share increased again after a visible fall in 2010, thus exceeding 2/3 of the total volume vs. 63 to 64% in the period between 2008 and 2009.

A closer look at the situation reveals that at year-end 2010 the public sector was dominating in some of the industries, namely railway cargo shipment and passenger transportation, forest regeneration, production of sodium carbonate, externally powered broadcasting radio receivers, helicopters. In most other cases the public sector accounted for less than 20%, save for production of ethyl alcohol made of food raw material, wooden unimpregnated railway and tramway sleepers, cargo mainline cars, production of electric power at hydroelectric power stations, passenger automobile transportation service, all types of paid services, where the public sector accounted for less than a half anyway. An increase, up to 21.8% vs. 15.9% at 2010 year-end, in the public sector's participation share in oil production, including gas condensate, should be noted among the changes highlighted in the first half of 2011.

It should be noted, however, that the foregoing data should rather be regarded as minimal given the complexity of measuring the public sector's share for the following reasons: (1) limited reliability of the Rosstat's data amidst the multistage corporate control system employed at many state-owned enterprises, which excludes several levels (by analogy with private companies), (2) impossible impartial and reliable assessment of the state indirect effect on property relations based on the results of the anti-recessionary measures taken in 2008 – 2009 and (3) potential incompleteness of accounting by public agencies.

### 6.1.2. Privatization Policy

Since the privatization Program for the period of 2011–2013 approved by the Government of Russia in November 2010 was developed on the basis of the amendments which were made to the applicable law on privatization at the end of May 2010 and provided for a 3-year extension of the planning effective period of the Forecast Plan (Program) for the Federal Property, in 2011 the foregoing document was only amended and updated. A total of 13 relevant statutes and regulations were adopted by the Government of Russia through Enactment No. 2102-r, dd. November 27, 2010, since the approval of the Forecast Plan (Program) for Federal Property

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<sup>1</sup> With regard to the latter indicator, the data on the end of H1 2011, which saw a considerable growth (against the previous few years) in 2010, also tend to increase a bit as to the public sector's share for the other specified indicators, which needs refinement as to the year-end results in general.



Privatization and the Guidelines of Federal Property Privatization for 2011–2013, two of which were issued as early as the very end of 2010 and in January 2012. Government of Russia Enactment No. 513-r, dd. March 24, 2011, contained a major part of the amendments.

The list of the property subject to privatization was expanded as to all types of assets (SUEs, JSCs, LLCs, other property). The list of the latter category which is basically represented by immovable property assets and land plots, was updated most. Whereas the originally approved version of the privatization Program for the period of 2011–2013 included 73 items of other property assets, it was updated to include 468 items, or up 6.4 times, as early as 2011 year-end.

In addition, the privatization program was complemented with special instructions providing for incorporation of a part of the FSUEs subject to privatization which are 100% owned by the federal government (shares (a part thereof) are subsequently to be contributed to the charter capital of a relevant integrated entity, or 100% shares are subsequently to be assigned as the state asset contribution to Russian Technologies state-owned corporation, as well as provide for the terms of privatization to be defined by the state with regard to specific blocks of shares<sup>1</sup>.

Given the updates and amendments made, the Privatization Program for the period of 2011–2013 provides for privatization of a total of 1396 federally held shares of joint stock companies, 276 federal state unitary enterprises and other 468 property assets as part of the Russian Federation treasury.

A special emphasis should be placed on that the list of the 10 super large companies in which the government allowed state capital participation to be reduced in 2011 – 2013, remained unchanged, but were specified with regard to the Federal Hydropower Generating Company (RusHydro) and the United Grain Company (UGC).

The Ministry of Economic Development and Trade of Russia and the Ministry of Energy of Russia were assigned to see, jointly with the Federal Agency for State Property Management, that the federally held interest in OJSC Federal Hydrogenation Company (the city of Krasnoyarsk) is duly sold under a favorable market situation until July 1, 2012, to the extent that the state retains 50% plus one share in the said joint stock company. The same corporate governance threshold was determined for the United Grain Company (UGC).

A privatization transaction was closed with regard to the foregoing companies, which became the largest transaction throughout the entire period of 2000. In February 2011, OJSC VTB Bank floated a federally held interest of 10% among Russian and foreign investors during a secondary public offering (SPO) at \$6.25 per global depository receipt (GDR). According to the data provided by the bank, a total of 1,046,054,133,732 shares of the Russian company were floated in the form of GDRs and common shares. A total of Rb 95.68bn proceeds were obtained.

LLC Merrill Lynch Securities was authorized to organize and close the transaction on behalf of the state under an agency contract. As early as the fall of 2010, LLC Merrill Lynch Securities Merrill Lynch Securities was assigned to be the sole contractor of the public contract on purchase and sale of the federally held ordinary registered shares of OJSC VTB Bank

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<sup>1</sup> The originally approved version of the Privatization Program included an instruction for the to-be privatized shares of some of the OJSCs scheduled for contribution to the charter capital of the relevant integrated entity on the basis of the decisions made by the President and Government of Russia.

(up to 10% of charter capital) at least at a market price specified on the basis of the market value assessment report made by an independent appraiser.

Gazprombank in the same manner under an agency contract closed a transaction on purchase and sale of the federally held interest in OJSC Prosvescheniye Publishing House, for a total of Rb 2.25bn.

Apart from the sale of OJSC VTB Bank and OJSC Prosvescheniye Publishing House, five investment banks to be engaged in purchase and sale of the federally held interest in six companies were determined in 2011 as part of the work performed by the Ministry of Economic Development and Trade of Russia.

In all other respects, the Privatization Program for 2011 started traditionally with the bid, which was announced as early as 2010, and summing up the results thereof.

In particular, at the end of December 2010, the Federal Agency for State Property Management announced a purchase and sale of the federally held interest in 16 JSCs (incl. OJSC Tolmachevo Airport) of the 26 investment-attractive joint stock companies (seaports, river ports and shipping lines, airports) included into the privatization program for 2010 for the purpose of subsequent sale under Russian Government Order No. 1321-p, dd. August 4, 2010, following the President's decision to shorten the list of strategic enterprises and JSCs (Order No. 762, dd. June 18, 2010). The results of the relevant auctions were summed up as early as 2011.

All in all, the shares (interest in charter capitals) of 359 joint stock companies were sold in 2011, including 38 JSCs whose purchase and sale was announced in accordance with the Forecast Plan (Program) for Federal Property Privatization for 2010, and decisions on the terms of privatization were made with regard to 143 federal state unitary enterprises.

Comparing the provided data with the results of the privatization programs implemented in the previous years (*Table 7*), it is obvious that the number of FSUEs doubled, for which the terms of privatization were made, and the number of sold shares increased 2.7 times vs. 2010. At the same time, more than 500 shares were sold annually in the mid-2000s, and the results achieved in 2011, 2000 and 2006 thru 2007 are the same. The results are less impressive as to privatization of unitary enterprises.

Furthermore, more important is their inclusion into the composition of vertically integrated entities. For example, almost 2/3 (92) out of the 143 FSUEs, for which the Federal Agency for State Property Management made decisions on the terms of privatization, were incorporated as part of the integration processes. The same picture also can be seen with regard to registered OJSCs (30 out of 42).

The issue of lack of bids from those companies who were supposed to be the bidders in the relevant procedures remained to be resolved in spite of a large scale of privatization in the previous year. For example, more than a half (375) of the shares of 730 JSCs which were offered for sale in 2011 (information announcements were published), were reoffered for bid.

In particular, the same was reported with regard to the shares of OJSC Cheboksary River Port and OJSC Northern River Shipping Lines, which were a part of the aforementioned group of 26 joint stock companies delisted from the list of strategically important enterprises and companies in 2010. Another 10 companies of the list were expected to be privatized in 2011 as part of the implementation of the Forecast Plan (Program) for Federal Property Privatization for 2011–2013 on the basis of the Government of Russia decisions on the terms of privatization of the federally held shares of Murmansk (25.5%) and Novorossiysk (20%) Commercial Seaports.

Table 7

**Comparative data on the dynamics of privatization of federal state unitary enterprises and federally held shares in the period between 2000 and 2011**

Period	The number of federally owned privatized enterprises (units) (according to the Federal Agency for State Property Management, and the Federal Agency for State Property Management of Russia until 2004)	
	privatized FSUEs <sup>a</sup> , q.	JSC shares sold, q.
2000	2	320
2001	5	125 <sup>b</sup>
2002	102	112 <sup>b</sup>
2003	571 <sup>c</sup>	630
2004	525	596 <sup>d</sup>
2005	741	521
2006	...	356 <sup>e</sup>
2007	377	377
2008	213	209 <sup>b</sup>
2009	316+256 <sup>f</sup>	52 <sup>b</sup>
2010	62	134 <sup>b</sup>
2011	143	359 <sup>b</sup>

<sup>a</sup> – all preparatory arrangements have been completed and decisions on the terms of privatization made;

<sup>b</sup> – including blocks of shares which were announced for sale in the previous year;

<sup>c</sup> – net of the FSUEs whose assets were contributed to the charter capital of OJSC Russian Railways;

<sup>d</sup> – including 31 blocks of shares which were announced for sale in 2004, but the results thereof were summed up in 2005;

<sup>e</sup> – estimated value based on the data provided in the FPMA's Report "On Federal Property Privatization in 2007";

<sup>f</sup> – the number of FSUEs for which the decision on incorporation was made by the Ministry of Defense of Russia in addition to those when a similar decision was made by the Federal Agency for State Property Management.

Source: www.mgi.ru; The materials for the meeting of the Government of Russia which was held on March 17, 2005. "On Measures Aimed at Improving the Effectiveness of the Federal Property Management"; Federal Agency for State Property Management (FPMA) Report "On Federal Property Privatization in 2005". M., 2006; Federal Agency for State Property Management (FPMA) Report "On Federal Property Privatization in 2007". M., 2008; Federal Agency for State Property Management. Performance Report for 2008. M., 2009; the data provided by the Ministry of Economic Development and Trade of Russia, the Federal Agency for State Property Management.

Transport assets were sold more or less successfully throughout the entire year. Of most importance were the privatization transactions of the federally held interest in Tolmachevo Airport (the Novosibirsk Oblast, 51%, Rb 2.806m), Volga Shipping (Nizhny Novgorod, 25.5%, Rb 1,042.646m), Tuapse Seaport (25%, Rb 1,612.1m), North Western River Shipping Lines (25.5%, Rb 934m), Vostochny Port (Nakhodka, 20%, Rb 912m), Osetrovsk River Port (the Irkutsk Oblast, Rb 361,821m), Moscow River Shipping Lines (25.5%, Rb 302.994m), Vostok Aviation Company (the city of Khabarovsk, 51%, Rb 263.4m), Astrakhan Airport (51%, 216,875m Rb), Volgograd International Air port (about 38%, Rb 177m), South River Port (Moscow, Rb 134.881m), Volgograd River Port (25.5%, Rb 112,825m), Azov Seaport (25.5%, Rb 100.390m). The sale of blocking interest in Eisk and Taganrog Seaports, Rostov River Port generated less than 100m Rb each<sup>1</sup>.

The sale price exceeded the initial price in some of the transactions closed, which is not typical of privatization in Russia: (4 times as much) for the federally held interest in Azov Seaport, (2.95 times as much) in Volgograd Airport and (more than 2.5 times) in Tolmachevo Airport, (1.74 times as much) in Volgograd River Port. At the same time, most of the other

<sup>1</sup> www.rosim.ru

specified federally held shares were sold when the sale price was equal to the initial price, save for Vostok Aviation Company, Vostochny Port, Eisk and Taganrog Seaports, Rostov River Port, where the sale price slightly outstripped the initial price.

The sale of 55% interest in Vaninsk Commercial Seaport should have been the largest privatization transaction in terms of absolute value (apart from the sale of 10% interest in VTB) (Rb 10,824,125m) and excess of the sale price over the initial price (11.6 times as much), however, the results thereof were cancelled, because the contractor refused to meet the payment commitments. Furthermore, the contractor was to pay a penalty of Rb 75.114m under the arbitration court order, though the Federal Agency for State Property Management demanded much more, Rb 300.46m.

Neither blocking interest auctions for Murmansk River Shipping Lines and Yenisei River Shipping Lines, Samara River Port and Tver River Port, Anapa Airport were held, nor the shares of the foregoing Cheboksary River Port and North Western River Shipping Lines were sold through public offering due to lack of bids.

Given the outdated data of the share market value assessment reports and availability of up-to-date financial figures, as well as the need to engage the maximum number of interested investors, the Federal Agency for State Property Management decided to cancel the sale of the shares of OJSC S7 Airlines and OJSC Murmansk Fishing Seaport which was scheduled for the end of September.

The federally held shares of joint stock companies of various economic sectors, including air transport and water transport (including seaports and river ports), were sold through more than 50 privatization transactions at a value of more than Rb 100m closed in the previous year by the Federal Agency for State Property Management and its territorial offices. It suffice to refer to transactions at a value of more than Rb 300m.

Among these were specialized installation entities (Specialized Building and Construction Works for Electrification of the Moscow Railway Junction (Rb 1065.41m) and Elekrotrsmontazh (Moscow, Rb 330m), Moscow research institutes (NIITECHIM (Rb 554.615m), Vitamin Research Institute (100%, Rb 491,546m), MNIIRS (Rb 355.175m)), agricultural sector enterprises (OJSC Doskoye (Rb 476.49m) and the First Horse Cavalry Stud Farm (Rb 303m) (both are located in the Rostov Oblast)). Also Buryatia Hotel and Tourist Complex (Ulan-Ude, Rb 508.2m). The overwhelming majority of the foregoing cases included the sale of 100% participatory interest held by the state<sup>1</sup>.

Therefore, it may be suggested that the emerged investment priorities mean the opportunity to have access to sought-after resources (land, immovable property in major cities) and large-scale cash flows, which in markets with high entry barriers created through capital-intensive and highly specialized equipment must generate the demand of natural monopolies with potential co-financing on the side of the state, rather than interest in the offer to run business in one or another sector of the economy.

An effort to launch a large-scale sale of other property assets as part of the treasury of Russia became another specific feature of privatization in 2011.

In 2010, decisions on the terms of privatization of such assets (only 10 property assets) were made and publication of information announcements of sale were published not until the very end of the year, while the results were summed up as early as the beginning of 2011: six of the eight property assets were sold for a total of Rb 196.91m

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<sup>1</sup> www.rosim.ru

Of 132 property assets subject to sale under the Privatization Program for the period of 2011–2013<sup>1</sup>, and 86 of those offered for sale, the results in 2011 were summed up only for 16 property assets, of which only three were sold at no more than Rb 5m, and no sale took place for 13. Eleven sales of other property assets for a total of Rb 84.3m have been recognized as completed since the beginning of 2012. Therefore, no success was achieved.

Nevertheless, the amount of the proceeds generated in 2011 from sale of the federal property subject to privatization totaled Rb 121.44bn, i.e. 2.5 times as much as the total amount of revenues generated from this source in the previous four years (2007 thru 2010), as the Ministry of Economic Development and Trade of Russia and the Federal Agency for State Property Management reported. More details on the federal budget revenues from privatization and usage of state-owned property assets are provided in other sections herein based on the budget statistical data.

### 6.1.3. Updates to the Law on Privatization

The law on privatization was constantly improving during the previous year, like the year before that<sup>2</sup>.

Four federal laws were issued a time in July 2011 to amend and update the Law “On Privatization of Public and Municipal Property” of December 21, 2001, (No. 178-FZ). The Federal Law of July 1, 2011, No. 201-FZ, was considered most important, as it intended to amend the applicable Law on Privatization, whereas the other three laws updated the same in the context of other legislative initiatives.

The following significant amendments and updates to the Law were made:

- it is accepted that disposal of 15 categories of property which are not covered by the law<sup>3</sup>, can be regulated not only by other federal laws, but also other regulations (only regulations adopted under federal laws were mentioned previously);

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<sup>1</sup> The main part (about 72%) of the treasury property assets included into the program was subject to be included into integrated entities.

<sup>2</sup> See Annual Review “Russian Economy in 2010. Trends and Outlooks (Issue 32)” issued by IET (P. 6.1.5. New Stage in the Implementation of National Policy on Privatization of State-Held Property: Key Priorities and Objectives, Actions and Risks, p. 426-459).

<sup>3</sup> It was in the original version of the law that relations arising out of transfer of property were not supposed to be within the scope thereof, namely transfer of (1) land, safe for transfer of land plots on which property assets are located, including property complexes; (2) natural resources; (3) public and municipal residential properties; (4) public and municipal property, (5) property assets located outside the territory of the Russian Federation; and in (6) the cases provided for by international agreements (accords) signed by the Russian Federation; (7) faith-based buildings and facilities, including the land plots which pertain thereto, and other faith-based property owned by the state and municipalities which are transferred on a compensation-free basis to faith-based organizations which will use thereof for the faith-based purposes; (8) public and municipal property to non-profit organizations and entities established as a result of transformation of public and municipal institutions; (9) the property assigned to state and municipal unitary enterprises, state and municipally institutions on the basis of economic management or control; (10) public and municipal property on the basis of a relevant court order; (11) shares (interest) in the cases when the Russian Federation, constituent territories of the Russian Federation and municipalities become legally entitled to demand from a joint stock company to purchase such shares (interest).

Later these were complemented with the following types of property: (1) publicly and municipally owned land plots on which buildings, facilities and structures owned by all-Russia societies of the disabled and organizations are located, and these societies are the sole founders of such property being transferred to them on a compensation-free basis (in 2005, this types of property was combined into a single category with faith-based property being transferred to faith-based organizations); (2) the stocks of a joint stock company (OJSC), including securities to be converted into such stocks, in case of retirement thereof pursuant to the procedure set forth in

- the composition of one of the foregoing category of property was extended through transfer of the title of public and municipal property to non-profit organizations (NPOs) established as a result of transformation of public and municipal unitary enterprises (the category previously included the property transferred to NPOs established as a result of transformation of public and municipal institutions, as well as the federal property transferred to public corporations as an asset contribution from the Russian Federation);
- there is a provision for the possibility to privatize unitary enterprises through incorporation thereof not only into open joint stock companies (OJSCs) (as previously) but also limited liability companies (LLCs), which, consequently, resulted in many updates to the text of the law, including the emergence of “business entities” category which within the meaning of it covers a wider population of business organizations;
- it is the size of the charter capital of a company established through privatization that serves as the criterion for bidding of one of the foregoing methods: if the size is smaller than the minimum charter capital requirement for OJSCs established by the Russian laws, a unitary enterprise shall be transformed into LLC, if its charter capital equals or beyond the requirement, it should be incorporated into a joint stock company, but if one of its performance figures (such as (1) average staff headcount, (2) proceeds from sale of goods (works, services) net of VAT in the period of three calendar years prior to the privatization, (3) the amount of residual value of its fixed assets and intangible assets as of the latest reporting date) is equal or less than the ceiling established for small business entities pursuant to Federal Law No. 209-FZ, dd. July 24, 2007 “On the Development of Small and Medium Size Enterprises in the Russian Federation”, the unitary enterprise property complex also can be privatized through transformation thereof to LLC;
- LLCs like OJSCs may not buy their interest; the emergence of a special regulation, i.e. if the buyer of public or municipal property was not entitled to purchase thereof, the relevant transaction shall be deemed null and void. This regulation is of general nature though;
- an explicit rule was included into the law on that the size of the charter capital of a business entity established through transformation of unitary enterprise equals to the book value of the unitary enterprise’s assets subject to privatization which includes the value of land plots;
- the text of the law was complimented with a provision on that to define the composition of the privatized property complex of a unitary enterprise, creditors’ claims shall be duly considered without having to obtain the consent of creditors as to address their claims to a successor in title of the unitary enterprise;
- a list of the data to be included into a decision on federal property privatization was complemented with data on the size of charter capital of OJSCs’ or LLCs’ established through transformation of unitary enterprises, the number, category and par value of a share in OJSCs and interest in LLCs which is held by one or another level of public authority;

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Article 84.8 of Federal Law No. 208-FZ dd. December 26, 1995, “On Joint stock Companies” which regulates the retirement of securities of joint stock companies as demanded by a person who holds at least 95% of interest in such OJSC (2006); (3) property to be transferred to public corporations (state-owned companies) (2007) and the Russian Housing Development Foundation as an asset contribution from the Russian Federation (2008); (4) property transferred to the RF Presidential Center for Historical Legacy which ceased to perform its duties (2008); (5) federal property pursuant to the decisions of the Government of Russia made for the purpose of creating conditions for the attraction of investments, stimulation of the stock market, as well as modernization and technical development of the national economy (2010).

- some amendments were made to the regulation on how buyers of privatized property should submit relevant documents: (1) instead of having to provide a written decision on the purchase of property made by a relevant governing body, legal entities must have a document which confirms the powers of the head of a legal entity to act on its behalf without a power of attorney or with a power of attorney authorizing him/her to act on behalf of an bidder<sup>1</sup>; (2) a requirement that the bidder or a representative thereof bind, enumerate, seal and sign (required for legal entities) all the pages of documents (or specific volumes thereof) submitted together with bids, attach (to a bid) two copies of the record statement thereof, one for the seller, another one for the bidder; (3) the bidder must observe the foregoing requirements, which means that bids and the documents to be attached thereto are submitted on behalf of the bidder<sup>2</sup>;
- the same way one should consider a new explicit rule emerged in the law, which prohibits to impose other requirements on the documents to be attached to bids, as well as require other documents upon the abolishment of the previous rule requiring that the bidder prove that he is entitled to purchase public or municipal property;
- with regard to social guarantees to the workers employed in OJSCs and LLCs established through privatization, it was ascertained that a new collective agreement may be entered into or the previous agreement may be extended for a period of up to three years upon expiration of three months from the date of registration thereof (previously, the agreement in effect was allowed to be revised without having to specify its terms, in addition to a new one);
- in case of privatization through tenders, shares or a participatory interest in the charter capital of OJSCs or LLCs, accounting for more than 50% of their charter capital, may be sold, whereas previously the unitary enterprise property complex might be sold along with the sale of more than 50 per cents of OJSC's charter capital;
- a list of the terms and conditions of tenders was added to the change in assigning specific property assets used for scientific or/and research purposes;
- a procedure for reimbursement on invalid transactions on purchase and sale of public and municipal property: budgets at a relevant level became the only source of financing thereof, whereas previously budgetary funds could be used subject to shortage of the proceeds from sale of property to other buyers under other privatization transactions prior to allocation thereof;
- public and municipal title must be protected the same way, i.e. with relevant budgets, while the priority of the norms set forth in the Budget Code of Russia was established with the regard to the money received with regard to defaults on privatization transactions, like interest transaction for the amount equal to the provided installment payment for privatized property;
- given the possibility to transform unitary enterprises into LLCs fully owned by the state (municipality), it was established that the charter of such LLCs may not provide for the prerogative right to buy the interest sold by its holder, as well as they are not subject to the norms set forth in the Federal Law “On Limited Liability Companies” on joint and

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<sup>1</sup> Where the power of attorney authorizing to act on behalf of the bidder is signed by a person authorized by the manager of a legal entity, the bid also must contain a document which certifies the powers of such person.

<sup>2</sup> Inappropriate meeting by the bidder of the requirement that all pages of documents attached to the bid must be enumerated is not considered a ground for denying the bid, though no sanctions are provided for in this respect.

several obligations of the members of such LLCs and an independent appraiser to bear subsidiary liability in case of shortage of LLCs' property if non-cash payment for a participatory interest in the charter capital under their obligation is made to the extent equal to an overvalued amount of the property paid for a participatory interest in the charter capital made within three years from the date of state registration of the company or making amendments to the charter thereof;

- the wording of the article on the specifics of legal status of OJSCs and LLCs whose shares, participatory interest in the charter capital are held by the Russian Federation, constituent territories of the Russian Federation or municipalities was rectified to refer to shares and participatory interest which are not assigned to state and municipal unitary enterprises and institutions;
- due to acceptance of engaging legal entities, apart from public authorities, in organizing sale of privatized property pursuant to the duly established procedure, an allowance is made for such sellers to sell in specific cases to exercise on behalf of the state some of the rights which the shareholders or members of LLCs are entitled to;
- with respect to OJSCs and LLCs with a 100% federal or municipal government ownership (100% participatory interest in the charter capital) are held by the state or a municipality it was ascertain that procedures for preparation and holding a general meeting of shareholders (members of a joint stock company) are not to be applicable, except for the provisions regarding the dates of an annual general meeting of shareholders, general meeting of the members of a joint stock company;
- the text of the law was supplemented with a provision on that OJSCs and LLCs established through privatization of unitary enterprises are to be entitled to conduct the types of activities provided for by their charters based on licenses and other permits issued to such unitary enterprises.

A series of amendments and updates were made in December 2011 to the applicable Federal Law “On Privatization” in the context of the development of the legislation on the protection of competition:

- the format of information support of privatization which after the amendments dated May 2010 must include, apart from having to be published in official printed publications, posting of relevant information on official websites, also supplemented with the official website of the Russian Federation for posting information on bidding as determined by the Government of Russia;
- the requirement for a period of acceptance of bids for auctions (at least 25 days) was supplemented with a rule specifying that such auctions must be held not less than 10 days from the date on which the bidders are accepted (the same rule is to be applicable to a special auction, tender, sale through public offering);
- second, (5 to 15 working days from the date of summing up the results of an auction) the term for concluding a purchase and sale agreement with the winner was extended (the same must be applicable to sale through public offering from the date of winner pronouncing notice);
- a duration applicable for auctions (tenders) was a bit shorter (10 to 15 working days);
- however, no agreement may be entered into on the basis of the results of auctions, sale through public offering, sale without specifying the price within less than 10 working



days from the date when a protocol containing the results of sale of privatized property is posted on websites;

- a new version of Article 22 of the applicable Federal Law “On Privatization” is to take effect next year (on January 1, 2013), which will regulate sale of OJSCs’ shares through a securities market operator, in which this notion and notions derived from this notion were replaced with the ‘exchange auction’, etc. with relevant drafting amendments.

The following should be highlighted in assessing numerous updates to the Federal Law “On Privatization”.

The duration of entering into a purchase and sale agreement with the winners of privatization procedures was extended; a regulation on the minimum time interval between the acknowledgement of bidders and the moment of conducting procedures themselves must raise the level of competition in the sale of privatized assets.

Improving information support of privatization by adding more channels of dissipation of relevant information through the official website of the Russian Federation together with the introduction of the minimum time interval between posting of a protocol of sale of public or municipal property on websites and conclusion of an agreement on the basis of such sale is intended to contribute to a more transparent privatization process as a whole thus counteracting corruption and organized crime.

The regulation on the right of OJSCs and LLCs which are established through privatization, to conduct activities on the basis of licenses and other permits issued to a relevant unitary enterprise is supposed to further strengthen the status of new owners and privatized enterprises themselves.

Changes in the procedure for reimbursing under invalid transactions of purchase and sale of public and municipal property, which prohibits the use for this purpose of the proceeds from sale of property to other buyers under other privatization transactions prior to allocation thereof, is likely to streamline the process of privatization.

The way of incorporation of unitary enterprises into LLCs seems to be ambiguous. On the one hand, many options of incorporation of business entities of this type can be made available by using this way together with the regulations set forth in the relevant special law<sup>1,2</sup>.

The formerly used type of incorporation of almost all<sup>3</sup> unitary enterprises (including many small enterprises) into OJSCs with a 100% state-held interest was related to a formal necessity to incur expenses arising out of the requirements set forth in the laws on of joint stock companies and securities<sup>4</sup> with questionable prospects of attracting investments through enlisting in the stock market, but a substantial increase in subsequent public expenses on representation of its interests (the need to increase the number of its representatives in the govern-

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<sup>1</sup> Federal Law No. 161-FZ, dd. November 14, 2001, “On Public and Municipal Unitary Enterprises” allows these to be transformed into public and municipal institutions and, based on the recent amendments, autonomous nonprofit organizations as well.

<sup>2</sup> The procedure for participation of public representatives in the top management body of autonomous nonprofit organizations and the Procedure for Corporate Governance of LLCs with a State-Held Interest Established Through Privatization were approved by RF Government Regulations No. 33 and No. 34, dd. January 27, 2012.

<sup>3</sup> Except for sale of the unitary enterprise property complex which was abolished on the basis of analysis of the amendments made to the Federal Law “On Privatization” in the summer of 2011.

<sup>4</sup> The obligation to annually publish profit & loss reports, balance sheets, disclose information on general meetings of shareholders, the need to engage a special registrar in maintaining a register, etc.

ing bodies of OJSCs while having to maintain their qualification at an adequate level and adequately using corporate governance arrangements<sup>1</sup>).

On the other hand, there arises a certain contradiction with the orientation – which was typical of the entire period of reforms of ownership relations in Russia as early as the 1990s – of property management agencies towards minimization of public participation in the economy in any legal form which differs from OJSC because the latter is more transparent. However, this perspective should be accepted as realistic due to that an interest held by the state (municipality) in a LLC may not be bought in full at a time in the course of privatization. Furthermore, the use of criteria applicable to small businesses which provide for the possibility itself of incorporation of a part of unitary enterprises into LLCs, is not mandatory and diverse.

Enlarging the list of terms and conditions for sale during tenders (auctions) by restricting changes regarding the purpose of specific property assets used for scientific and/or research activities may have an adverse effect due to the threat of formal approach towards privatization without considering sector-related specifics, and the notorious problem of following up the observation of the terms and conditions of tenders (auctions).

It also is worth noting that there was a continued trend towards enlarging the already exclusive prerogatives of the government in the world of privatization without actual external control over privatization, as evidenced by a newly appeared regulation on the transfer of property of 15 categories which are not covered by the law, other federal laws and also other norms and regulations.

The update issued in 2010 – it still remains to be adequately formalized – allows other legal entities besides government authorities<sup>2</sup> to be engaged in organizing sale of privatized property, was supplemented with the possibility in some cases for such legal entities to exercise on behalf of the state the specific rights to which LLC shareholders or interest holders are entitled, without defining any set of such rights and conditions under which they can be delegated.

Hence, summing up the results, one may say that the amendments and updates made to the Federal Law “On Privatization” in Russia in 2011 materialized the proposals of the Ministry of Economic Development and Trade of Russia and the Federal Agency for State Property Management which were prepared as early as 2005, on how to raise the level of effectiveness and enhance the mechanism of privatization process and optimize decisions on the management of state-owned property assets, followed the logic of the important updates included into the Law “On Privatization” in 2010.

However, the latter, being focused on a large-scale privatization of large aggregate of relatively small assets and expansion of the conditions, potential mechanisms of privatization of large and super large public companies, are imposed to a significant potential of risks related to poor transparency of sale of property to strategic investors, ill-defined reciprocal obligations of the state and buyers, unclear mechanisms of enforcement of such obligations. With regard to privatization of large companies, a special focus is placed on “individual” decisions, but even general frameworks of such decisions remain to be defined, while the powers of the

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<sup>1</sup> The activity of the Board of Directors of OJSCs is a certain precondition for being subject to a strict control over management. However, lack of regular meetings and red tape cast some doubt on the effectiveness of incorporation of unitary enterprises.

<sup>2</sup> A relevant mechanism should be developed on a competitive basis, which is not mentioned in the law, to create conditions for making decisions on engaging private sellers in selling privatized federal property. A list of such organizations, 23 legal entities, including Sberbank and VTB, was approved as early as 2010.

Government of Russia in making such decisions were enhanced and their role made more important<sup>1</sup>.

The circumstances require that further efforts be made to create objective preconditions for strengthening the structural trend of privatization which require a significant progress in developing institutional environment, long-term and transparent “game rules” for interaction between the state and business community.

Among the applied regulations which have an effect on the privatization process, a special emphasis should be placed on Russian Government Regulation No. 71, dd. 12 February 2011, which specifies – as part of the implementation of the amendments adopted in 2010 to the Federal Law “On Privatization” – the rules for sale through public offering, establishes the transition to setting the initial sale price through market-driven mechanisms on the basis of the report made by an independent appraiser, updates the rules for submission of documents for bidding at privatized property sale auctions.

Order No. 208 which was issued by the Ministry of Economic Development and Trade of Russia on May 11, 2011, approved the Procedure for Disclosure of Information by OJSCs whose shares are held by the state or municipalities, and public (municipal) unitary enterprises since the moment of enlisting into the Forecast Plan (Program) for Federal Property Privatization. These rules are applicable at the federal, regional and municipal levels, save for FSUEs subject to transformation – based on decisions of the President and the Government of the Russian Federation – into OJSCs with a 100% federal government ownership and to be contributed to the charter capital of OJSC or a public corporation as an asset contribution from the state, as well as OJSCs whose shares are to be contributed to the charter capital of other OJSC on the basis of decisions made by the President and the Government of the Russian Federation.

In addition, Russian Government Order No. 1094, dd. December 22, 2011, approved the amendments to the Rules for the Development of the Forecast Plan (Program) for Federal Property Privatization issued at the end of 2005. The amendments regulate, in particular the procedure for delisting federal property from the privatization program, establish the procedure and terms within which the Ministry of Finance of Russia and the Federal Antimonopoly Service of the Russian Federation are to approve the proposals on delisting federal property from the privatization program which federal government executive bodies submit to the Federal Agency for State Property Management, as well as the procedure and terms within which discrepancies on this issue are to be considered. The foregoing procedure provides for the following. Federal property can be delisted from the privatization program on the basis of consideration at a meeting held by the Government. Provisions on privatization of a state-held interest in LLCs were also included into the Rules for the Development of the Forecast Plan (Program) for Federal Property Privatization.

#### 6.1.4. Enhancing corporate governance of business entities with state participation

A series of significant amendments were made during 2011 to the applicable regulations which regulate the corporate governance of business entities with state participation.

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<sup>1</sup> See Annual Review “Russian Economy in 2010. Trends and Outlooks (Issue 32)” issued by IET (P. 6.1.5. New Stage in the Implementation of National Policy on Privatization of State-Held Property: Key Priorities and Objectives, Actions and Risks, p. 426-459).

The amendments were made on the basis of Russian Government Regulation No. 1214, dd. December 31, 2010, *applicable to federally owned JSCs*, and approved a pro-forma structure of the reports made by such JSCs, and some updates to the previously issued Russian Government regulations.

It was established that from March 1, 2011 federal executive bodies must cooperate on the issues regulated by the Provision on Management of Federally Held Shares of Joint stock Companies and the Use of the Special Right of Participation of the Russian Federation in Corporate Governance of Joint stock Companies (“Golden Share”) approved by Russian Government Order No. 738, dd. December 3, 2004, through an Internet-based Special Interdepartmental Portal on State-owned property Management operated by the Federal Agency for State Property Management.

The first stage of the Interdepartmental Portal was put into pilot production in 2010 and the second stage was scheduled for 2011. The Federal Agency for State Property Management used the Portal to control the activity of joint stock companies, in particular allocation of net profit retained as of the end of the previous year, reduction of expenses and management costs, implementation of investment programs.

The Portal was designed to play an important role in the set of public management tools, because representatives of state interests in the governing bodies of federally owned joint stock companies undertook to submit quarterly progress reports to the board of directors (Steering Committee) of JSCs and annual financial reports by posting thereof on the Portal.

The Ministry of Economic Development and Trade of Russia was put in charge of approving a form of the report made by those who represent the interests of the Russian Federation in the governing bodies of joint stock companies with federally held shares, and a filling-out manual, which the Ministry did by issuing Order No. 164, dd. 12 April<sup>1</sup>.

More details were specified as to the contents of the annual report on the management of federally held shares of JSCs and exercising the special right (“golden share”) in the previous year which the Ministry of Economic Development and Trade of Russia is to submit to the Government of Russia. The report must include information on: (a) execution of the orders issued by the President and the Government of the Russian Federation, including information on target and actually achieved characteristics and indicators of the sector-based performance in the previous year, (b) measures aimed at enhancing the corporate governance system, (c) all decisions on payment of dividends (including the amount dividends paid), including by sector, including large dividend payers, as well as JSCs which made a decision to pay no dividends, (d) business performance results, the dynamics of net profit and debt load against the sector average, including retrospective dynamics and analysis of capital adequacy, (e) the results of general meetings of shareholders which were held in the reporting year.

Formalized were the requirements to persons whom the state offers as independent directors and their relatives<sup>2</sup>, in nominating candidates for election to the board of directors of JSCs with state participation. Within the three recent years such persons must not:

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<sup>1</sup> The former standard forms of the reports to be made by representatives of the public interests in the management bodies of JSCs and general managers of FSUEs ceased to be in force under Government of Russia Regulation No. 499, dd. June 20, 2011.

<sup>2</sup> Their family members (spouse, parents, children, adoptive parents, adopted persons), as well as blood and half-blood brothers and sisters, grandparents.

- hold management positions, be employed at an JSC or its subsidiaries and related companies, as well as hold management positions, be a member of the governing body or the manager of an JSC;
- be an affiliate with any JSC or its subsidiaries and related companies, save for being a member of the board of directors (steering committee) of a joint stock company;
- act as an auditor of an JSC (including an officer of an auditor), as well as be an affiliate with the auditor of the JSC;
- perform obligations or be an officer of a company which performs obligations under an agreement with an JSC, if a total amount of transactions closed for the purpose of executing the agreement accounts for at least 10% of the book value of the JSC's assets within a period of one year;
- represent the interests of persons or legal entities bound under an agreement with JSCs with whom a total amount of transactions accounts for at least 10% of the book value of the JSC's assets within a period of one year;
- receive from JSCs remunerations, compensations or any other types of payment whose value accounts for at least 10% of the total annual income of the foregoing persons, save for payments relating to the activity as an independent director and closing of transactions in order to satisfy personal, household, family or other non-business needs, as well as participate in optional programs of the company.

In addition, a person whom the state as shareholder nominates as an independent director in the board of directors, must not:

- fill offices of state civil service or be a staff member of the Central Bank of Russia;
- be an elected member of the board of directors (steering committee) of a company within the recent five years;
- be in the capacity of manager or employed in any other JSC in which any member of the governing body of a company to which the person is nominated as independent director, is a member of the HR and remuneration committee under the board of directors of the company;
- be in the capacity of independent director of more than three joint stock companies.

In addition, formal revisions replacing the previously used notion 'open joint stock company' with 'joint stock company', meant that the foregoing regulations cover a wider population of business entities, because the state participates in the capital of some CJSCs besides OJSCs.

A new revision of a paragraph of the Provision on management of federally held shares of joint stock companies and exercise of the special right to participation of the Russian Federation in corporate governance of joint stock companies ("golden share") approved by Russian Government Order No. 738, dd. 3 December 2004, with regard to the status of those who represent state interests in boards of directors, became the most important amendment in 2011.

First of all, it should be noted that representatives of state interests and the persons whom the state nominated as independent directors were differentiated.

After that, the state was entitled to vote for the election of persons as representatives of state interests whom the state as shareholder didn't nominate for the board of directors, if such persons entered into an agreement on representation of state interests in the governing body of JSCs with federally held shares.

The provision issued in 2004 was also supplemented with regulations concerning professional agents, i.e. persons who act under the foregoing document and agreement and may rep-

resent the state interests together with persons filling public offices or offices of state civil service.

The agreement must stipulate that professional agents are entitled to initiate a discussion with relevant government authorities and invite other representatives of state interests in a joint stock company to discuss the issues brought up for meetings of the board of directors, and receive information which they need to exercise their powers and duties.

The agreement specifies the following powers to delegate to professional agents: (1) exercise in good faith and reasonable manner the delegated powers and duties within the scope of competence of board of directors, (2) notify promptly of their meetings whose agenda includes the issues which require directives to be issued, (3) vote in accordance with the issued directives (if issuance of directives is specified in the agenda of a meeting of the board of directors), (4) participate in the committees and commissions of the board of directors (if an agent is elected as a member of such committees and commissions), (5) convene a meeting of the board of directors and add to the agenda thereof the issues proposed by the Russian Federation as shareholder (if an agent is elected the chairman of the board of directors)<sup>1</sup>.

Following the Ministry of Defense of Russia, the Department for Presidential Affairs of the Russian Federation was entitled to exercise on behalf of the state the rights of shareholder of joint stock companies established through privatization of subordinated federal state unitary enterprises with federally held shares.

*With regard to FSUEs*, the aforementioned Russian Government Order No. 1214, dd. December 31, 2010, established a threshold to the value of property on which various decisions must be made on the basis of decisions of the Government of Russia, the Chairperson of the Government of Russia or decisions made by Deputies Chairperson by Chairperson's order<sup>2</sup>.

With regard to FSUEs which are not enlisted into the Forecast Plan (Program) for Federal Property Privatization, such a threshold was established to coordinate (1) transactions relating to management of a contribution (share of) to the charter (pooled) capital of business entities or partnerships, as well as shares held by a company, and (2) make decisions on participation of companies in business and non-profit organizations, as well as conclusion of a simple partnership agreement.

With regard to FSUEs which are enlisted in the Forecast Plan (Program) for Federal Property Privatization, such a threshold was established to coordinate (1) closing of large transactions as well as transactions relating to the extension of loans, issuance of sureties, banking guarantees, other encumbrances, assignment of claims, debt transfer, fundraising (2) transactions relating to the management of a contribution (shares of) to the charter capital of business entities or partnerships, as well as the shares held by an enterprise, (3) decisions on participa-

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<sup>1</sup> Previously, the issues related to the activity of proxies were regulated by still applicable Government of Russia Regulation No. 625, dd. May 21, 1996, which approved the Standard Agreement on Representation of State Interests in the Governing bodies of Joint stock Companies (Business Partnerships) Whose Stocks (Interest, Contribution) are Partially Held by the Federal Government and the Procedure for conclusion and registration of such agreements. This aspect, however, was not adequately reflected in the legal framework in the 2000s, concerning the management of state held shares (special Provisions which were approved by following each other government regulations issued in 2000, 2003 and 2004).

<sup>2</sup> More than Rb 150m pursuant to the law on valuation activities. This threshold value and the specified procedure for coordination have been applied in different variations since 2003 for the purpose of regulating FSUEs' transactions with the federal immovable property located in Russia and assigned to them for economical management.

tion of companies in business and non-profit organizations, as well as conclusion of a simple partnership agreement<sup>1</sup>.

Russian Government Order No. 499, dd. June 20, 2011, established that federal government executive bodies (FGEBs) should interact with regard to corporate governance of FSUEs which are basically governed by regulations concerning the functioning of entities of this type<sup>2</sup>, the same way as with JSCs with state participation, namely through the interdepartmental portal dedicated to the management of state-owned property assets.

The Federal Agency for State Property Management was placed in charge of regulation of interaction of FGEBs with regard to corporate governance of enterprises through the portal, while government authorizes themselves must start to approve corporate development strategies for the period of three to five years. Relevant guidelines were approved by Order No. 683 issued on November 18, 2011 by the Ministry of Economic Development and Trade of Russia.

Important amendments were made to the Procedure for the Reporting of Managers of FSUEs<sup>3</sup> and other regulations in force which regulate their functioning.

For example, Russian Government Ordinance No. 228, dd. April 10, 2002, "On the Measures of Enhancing Effective Use of the Federal Property Secured to Federal State Unitary Enterprises for Economic Management" with regard to approval by FGEBs of development strategies of their subordinated entities, established that they should be based on the approved programs and decisions made by the President and the Government of the Russian Federation. Corporate development strategies must be duly approved by a government authority<sup>4</sup> by engaging (as may be appropriate) representatives of other federal government executive bodies, while FSUEs' activity programs must be based on their duly approved corporate strategy.

Russian Government Regulation No. 739, dd. December 3, 2004, "On the Powers of Federal Government Executive Bodies to Exercise the Title to the Property of Federal State Unitary Enterprises" was supplemented with a regulation on that FGEBs shall make decisions on coordination of (1) closing of large transactions as well as transactions relating to the extension of loans, issuance of sureties, banking guarantees, other encumbrances, assignment of claims, debt transfer, fundraising (2) closing of transactions in which the manager of an enterprise acts as stakeholder, (3) transactions relating to the management of a contribution (shares of) to the charter capital of business entities or partnerships, as well as the shares held by an enterprise, (4) decisions on participation of companies in business and non-profit organizations, as well as conclusion of a simple partnership agreement, provided that such deci-

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<sup>1</sup> The scope of actions was also changed for this group of FSUEs. To do such actions, a decision of industry-specific authorities requires a motivated position of the Federal Agency for State Property Management, which is to be submitted in written within 10 working days from the date of receipt of relevant proposals from them.

<sup>2</sup> Russian Government Ordinance No. 228, dd. April 10, 2002 (together with the Rules for the Development and Approval of Operational Programs and Determination of a Profit of Federal State Unitary Enterprises which is Subject to Transfer to the Federal Budget, No. 333, dd. June 6, 2003 and No. 739, dd. December 3, 2004.

<sup>3</sup> Apart from the changes relating to the transition towards cooperation in managing FSUEs through the portal and approval of their development strategies, the procedure for reporting by their managers was changed by adding a provision on submission of information to the Federal Agency for State Property Management on participation of a company in the capitals of legal entities (this requirement was previously imposed on participation in the capital of foreign legal entities only).

<sup>4</sup> Except for the enterprises enlisted into the forecast plan (program) on federal property privatization, or the enterprises to be privatized on the basis of duly made decisions.

sions are in line with the measures provided for by their corporate development program, volumes and sources of financing, corporate budget items for the planning period.

Many amendments and updates were made to the currently applicable regulations which regulate the functioning of FSUEs.

In particular it was established that transactions on purchase and sale of property should be conducted by selling property at auction pursuant to the procedure established by the federal antimonopoly agency, whereas a reference to provisions set forth in the Law "On Privatization" which regulate sale of state-owned property assets and state-held shares of OJSCs at auction, was applied for this purpose in the previous periods.

In December 2011, the powers of the Federal Agency for State Property Management with regard to FSUEs, save for those FSUEs which are in the scope of competence of the Ministry of Defense of Russia and the Department for Presidential Affairs of the Russian Federation, with regard to coordination based on the proposals of a federal authority which is in charge of supervision over transactions with the immovable property assets secured to the enterprise on the basis of economic management, were supplemented with a qualifying regulation on leasing these property assets under agreements whose standard terms and conditions are approved by the Ministry of Economic Development and Trade of Russian, unless otherwise provided for by other norms and regulations adopted in accordance with the federal laws.

Special Russian Government Instruction No. 1060-r, dd. June 20, 2011 approved a list of 13 FSUEs to be subject to a special procedure for decision-making on specific issues concerning the activity of such enterprises, including appointment of the general manager thereof, conclusion, revision and termination of labor contracts therewith, approval of the development strategy and program, determination of a corporate profit to transfer to the federal budget, as well as approval of the estimate of income and expenses of federal state-run enterprises.

With regard to this group of enterprises, decisions on coordination of transactions relating to purchase, assignment or possibility of assignment, directly or indirectly, by enterprises owning property assets whose value exceeds 25% of book value of the corporate assets based on its accounting reports as of the latest reporting date, should be made by a FGEB on the basis of decisions of the Government of Russia, the Chairperson of the Government of Russia, or decisions made by Deputies Chairperson by Chairperson's order. The same procedure was established for reorganization of such FSUEs.

From the practical point of view, the update to corporate governance of federally owned joint stock companies can be characterized as follows (*Table 8*).

In the period since 2008 the number of JSCs whose governing bodies included elected professional directors, increased by 41 times, incl. 1,7 times in 2011, to reach 739 persons.

Hence, the percentage of JSCs with federally held shares, which engaged professional directors (net of JSCs which are subject to the special right "golden share", and LLCs), stood at more than 26% (against about 8% in 2009, 15.3% in 2010)<sup>1</sup>.

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<sup>1</sup> In analyzing this indicator, one should consider incomplete comparability of the give values, because in 2009 and 2010 they were obtained by comparing the number of JSCs which had professional directors in their governing bodies, with the total number of JSCs with federally held shares, as of the beginning of the year. Moreover, in 2011 the value was obtained by comparing it with a smaller group of JSCs with state participation at the year-end, which means that it was slightly overestimated. In addition, there is no knowing whether or not the membership of professional directors nominated by private shareholders apart from those nominated by the state was taken into account.



*Table 8*

**Dynamics of engaging professional directors in the governing bodies of joint stock companies with state capital participation in the period of 2008–2011**

Indicator	2008	2009	2010	2011
Number of professional directors, per., including	112	610	921	1568
- independent directors, per.	41	180	296	369
- professional agents, per.	71	430	625	1199
Number of JSCs in which they were elected as members of the governing body thereof	18	269	448	739

*Source:* G.S. Nikitin, E.Y. Litvina. Comprehensive Development of the Systems of Corporate Governance of Joint Stock Companies with State Participation. – B: “Joint stock Company: Corporate Governance” No. 12 (91), 2011, PP. 13-15, www.rosim.ru.

A total number of professional directors increased by 14 times, incl. by 1.7 times in 2011, in the foregoing JSCs. The number of professional agents increased almost by 17 times (1.9 times in 2011), independent directors by 9 times (about ¼ times in 2011). As a result, the latter accounted for 23.5% of the total number of professional directors in 2011, whereas this indicator the percentage was a bit higher in the previous periods (36.6% in 2008, 29.5% in 2009, 32.1% in 2010). Six hundred and two professional agents became Chairpersons of the Board of Directors (supervision boards) of companies with state participation, or half of the total number of those engaged.

Less success was achieved in other fields of corporate governance modernization. A total of 194 JSCs approved their mid-term strategic development program, 241 companies approved a system of key performance indicators. Different number of specialized committees (e.g., committee for strategic planning, HR and remuneration committee, audit committee, etc) were established under the board of directors of 261 JSCs, a position of corporate secretary was envisaged in 129 JSCs. The performance-based assessment of top manager remuneration, which is essential in crisis and post-crisis periods, was introduced through the use of key performance indicators in some joint stock companies: a provision of management remuneration was approved in 296 companies (of which 250 companies introduced remuneration on the basis of key performance indicators), but a provision on remuneration of the members of boards of directors was approved only in 122 companies<sup>1</sup>.

Following are important events that took place within the property strategy framework at the federal level. The CEOs of various large companies with state capital participation (e.g., the United Aircraft Corporation) were replaced, but it was not the case with natural monopolies, and deputy prime-ministers, ministers, managers of other federal government executive bodies and members of the Presidential Office were replaced with independent directors and professional agents in the board of directors of joint stock companies with state participation.

This measure is intended among others to improve the investment environment and cover about 20 largest companies with state capital participation and was supposed to be implemented within the first half of the year, when meetings of shareholders in the foregoing companies were supposed to replace ministries and other heads of government authorities assigned to regulate some or other market segments, who often were in the capacity of chairperson the board of directors of such companies. Not every civil servant was supposed to

<sup>1</sup> G.S. Nikitin, E.Y. Litvina. Comprehensive Development of the Systems of Corporate Governance of Joint stock Companies with state participation. – B: “Joint stock Company: Corporate Governance” No. 12 (91), 2011, P. 10, www.rosim.ru

be replaced with an independent director, government authorities were placed in charge of instructing state representatives on most important issues to consider.

The effect of this measure seems to be mixed. On the one hand, it creates potential preconditions for improving corporate governance, which is a key objective of the new privatization program. On the other hand, given the shortage of independent directors who would meet the requirements arising out of the materiality of companies with state capital participation, the situation is very likely to become the same as that at the very beginning of the 2000s, when senior civil servicemen represented state interests in these companies. In any case, it is undesirable if the state loses its leverage on the managers of these companies due to weakened status of state representatives in boards of directors and possible requirements to independent director candidates, and the issue of looking for efficient corporate governance arrangements in companies with state participation which provide for adequate balance of strategic interests of the state and private shareholders, still remains to be topical.

#### 6.1.5. State participation in the economy and structural policy

Ownership of assets doesn't mean that the state can influence the configuration of a specific industry and indirectly the structure of economy at large, including through stimulating or opposing to some or other changes in specific sectors. In this respect, the year of 2011 was characterized by a relatively small changes vs. the recent few years.

A list of strategic enterprises and joint stock companies was updated. From the quantitative point of view, the changes were smaller vs. a large-scale reduction that took place in the preceding year. Only one unitary enterprise and two OJSCs were enlisted, and seven unitary enterprises (of which two unitary enterprises were subject to conversion into state-funded institutions) and two OJSCs, including Oboronservice, an integrated entity established in 2008, were delisted. Two OJSCs underwent changes in the format of their presence in the foregoing list: the state-held interest decreased from 100% to 50% +1 share after Sherementyevo International Airport (SIA) and the United Grain Company (UGC) were allowed to increase their charter capital through additional offering.

The same size of state-held interest was established in the middle of the year for Federal Hydropower Generating Company (RusHydro), through a tentative contribution of federally owned shares of 12 OJSCs to its charter capital in addition to a large number of other property assets, of which most significant were Pavlodolsk HPP in North Ossetia (100%), Kamchatka Gazenergy Complex (96.58%), RAO Energy System of East (52.68%). A state-held interest in the three of the rest of companies was bigger than the blocking interest.

Apart from the electric-power industry, the plan for integrated entities includes decisions relating to the geological and agricultural sectors.

The existing OJSC Centrgeologiya will be renamed into Rosgeologiya with subsequent contribution in the form of payment of additional federally-held shares of 24 OJSCs (100% -1 share) and OJSCs established as a result of transformation of 13 FSUEs, to be floated by this joint stock company.

OJSC Rosspirtprom's property complex underwent significant changes. On the one hand, its charter capital was increased through a state contribution of a great number of immovable property assets<sup>1</sup> withdrawn from operating management of federal state-run enterprise (FSRE)

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<sup>1</sup> This can explain in part a sharp increase in the number of property assets subject to privatization which fall under the category of "Other property" in the privatization program for the period of 2011-2013.

Rosspirtprom. On the other hand, the number of business entities whose shares and interest were contributed to the charter capital of OJSC Rosspirtprom, decreased from 58 to 39, whereas the possibility to delegate exclusive rights to intellectual activities which previously were to be included therein, ceased to be in force. FSUE Central Moscow Hippodrome was incorporated into a OJSC with a 100% federally held interest, consolidating hippodromes of the Russian Federation. This is why the property assets of 27 state stud farms (SSF) left after liquidation of federal state institutions (FSI) were contributed as a state contribution to its charter capital.

An OJSC, Strategic Points of Control, started to build up in the defense industry. Such entities as the Concern Sozvezdiye and Concern Morinformsystem – Agat were expected to enlarge.

In 2011, a total of 29 integrated entities (including the Russian Technologies State Corporation) (26 integrated entities in 2010) were formed on the basis of the decisions made by the President and the Government of the Russian Federation.

As part of this process the Federal Agency for State Property Management made decisions on the terms of privatization of 92 unitary enterprises (24 unitary enterprises in 2010), shares of 44 JSCs (46 JSCs in 2010) and another 12 JSCs established as a result of transformation of FSUEs eligible for the Privatization Program and subject to become a part of integrated entities (two integrated enterprises in 2010), as well as 336 other property assets to contribute to the capital of OJSC Federal Hydropower Generating Company (RusHydro) and OJSC Rosspirtprom. The shares of 10 JSCs established through privatization of unitary enterprises were transferred as a state contribution to the Russian Technologies State Corporation.

With regard to 11 integrated entities (OJSC Concern PVO Almaz-Antey, Precision Instrument-Making Systems Research and Production Corporation, Uralvagonzavod Research and Production Corporation, Center of Excellence of Live Stock Reproduction, Rosneftgaz, Moscow Thermotechincs Institute Corporation, INTER RAOUES, OJSC Federal Hydropower Generating Company (RusHydro) and such FSUEs as “MMPP “Salut”, Khrunichev State Research and Production Space Center, Rosoboronexport), the decisions of the President and the Government of the Russian Federation were implemented in 2011 (the data provided by the Ministry of Economic Development and Trade of Russia).

At the end of October, OJSC Russian Railways sold 75% -2 shares (Rb 125,5bn) to its subsidiary Pervaya Gruzovaya Kompaniya. A blocking interest to Transcontainer was considered to be sold in the same manner<sup>1</sup>. However, the rolling stock was transferred to Pervaya Gruzovaya Kompaniya and Vtoraya Gruzovaya Kompaniya, other subsidiaries and independent companies because it became impossible to provide cargo transportation serviced on the side of the largest all-Russian railway carrier, which raised a question of introducing a category of “outsourced cars” which the Russian Railways should lease from other operators, including subsidiaries, to provide to consignors at special prices<sup>2</sup>.

Under such circumstances, apart from the structural policy aspects, it is the dividend policy of the state as shareholder of integrated entities that becomes important in terms of generating extra revenues from sale of assets in addition to operating income. The state may expect a certain amount of compensation for contributing free assets to these entities. In some cases, the

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<sup>1</sup> <http://www.lprime.ru>, 28.10.2011, M. Kukushkin. The Case is in Container // Moscow News, No. 159 (159), November 11, 2011, p. 07.

<sup>2</sup> Direct investments, No. 1 (117), 2012, p. 66.

state may accept discounting of budget-related problems by integrated entities in implementing “big privatization”, which requires a mandatory set of behavior requirements to such business entities with regard to pricing policy, participation in mergers and acquisitions, investments, etc.

#### 6.1.6. Budget effect of the state property policy in the period between 2000 and 2011

The downturn the Russian economy has been facing since the fall of 2008, naturally resulted in reduction of budget revenues, including revenues from the implementation of the state property policy. In 2011, like in the preceding year, economic growth was followed by a visible growth in state-funded revenues relating somehow to state-owned property assets.

It should be reminded that all federal budget revenues from state-owned property assets can be divided into two groups in terms of nature and sources thereof. One group includes revenues from the use of state-owned property (renewable sources). The second group comprises revenues of single origin, which are non-renewable, because once they are sold the state assigns the title thereto to other legal entities and individuals, incl. as part of the privatization process (non-renewable sources).

Below (*Tables 9 and 10*) are the data on the revenues (save for the data on the preceding year) specified in the laws on the implementation of the federal budget for the period of 2000–2010, with regard to the use of state-owned property assets and sale thereof only in the form of tangible assets<sup>1</sup>.

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<sup>1</sup> Outside the investigation remained federal budget revenues from mineral tax payments (including aquatic biological resources, revenues from the use of forest resources and mineral resources), compensation for losses in agricultural productivity relating to forfeiture of agricultural lands as a result of financial operations (revenues from allocation of budget funds (revenues from balances of budget funds and allocation thereof, from 2006 also revenues from management of funds allocated in the Stabilization Fund of the Russian Federation (in 2009 – the Reserve Fund and the National Wealth Fund), revenues from allocation of money accumulated during state-held shares auctions), interest from domestic budget loans extended with federal budget funds, interest on sovereign loans (cash inflow from foreign governments and legal entities thereof as repayments for loans extended by the Russian Federation, revenues from enterprises and organizations as payments of interest and guarantees on loans issued to the Russian Federation by foreign governments and international financial organizations)), from the provision of paid services or compensation for government expenses, transfer of profit to the Central Bank of Russia, some types of payments from public and municipal enterprises and organizations (patent fees and registration dues payable for official registration of software, data banks and integrated circuit layouts and other revenues which prior to including 2004 formed an integral part of payments due by government organizations (apart from revenues from the Vietsovetro Joint Venture since 2001 and allocation of a part of the profit of FSUEs since 2002)), revenues from exercise of product sharing agreements (PSA), revenues from disposal and sale of confiscated properties converted into the revenues received from the usage and sale of confiscated and other property returned to the state (including properties whose title was transferred to the state by way of inheritance or gift, or contributions), revenues from lotteries, other revenues from the use of state-owned properties and title (revenues from exercise of rights to intellectual activity (R&D and technological works) of military, special and double purposes, revenues from exercise of rights to the state-owned results of scientific and research activity, revenues from operation and use of motor road assets, motor road tolls payable for vehicles registered overseas, and other revenues from the use of state-owned property assets), as well as from permitted types of activity of organizations, federal budget revenues from sale of precious metals and stones as part of the national reserve of the same.

Table 9

**Federal budget revenues from the use of state-owned property assets  
(renewable sources) in the period between 2000 and 2011, m Rb**

Year	Total	Dividends on shares (2000–2011) and revenues from other forms of capital participation (2005–2011)	Rental payments for state-owned land	Revenues from leasing of state-owned property assets	Revenues from transfers of a part of after-tax profit and other mandatory payments payable by FSUEs	Vietsoinvest Joint Venture Revenues
2000	23244,5	5676,5	-	5880,7	-	11687,3 <sup>a</sup>
2001	29241,9	6478,0	3916,7 <sup>b</sup>	5015,7 <sup>c</sup>	209,6 <sup>d</sup>	13621,9
2002	36362,4	10402,3	3588,1	8073,2	910,0	13388,8
2003	41261,1	12395,8		10276,8 <sup>e</sup>	2387,6	16200,9
2004	50249,9	17228,2	908,1 <sup>f</sup>	12374,5 <sup>g</sup>	2539,6	17199,5
2005	56103,2	19291,9	1769,2 <sup>h</sup>	14521,2 <sup>i</sup>	2445,9	18075,0
2006	69173,4	25181,8	3508,0 <sup>h</sup>	16809,9 <sup>i</sup>	2556,0	21117,7
2007	80331,85	43542,7	4841,4 <sup>h</sup>	18195,2 <sup>i</sup>	3231,7	10520,85
2008	76266,7	53155,9	6042,8 <sup>h</sup>	114587,7 <sup>i</sup>	2480,3	-
2009	31849,6	10114,2	6470,5 <sup>h</sup>	113507,6 <sup>i</sup>	1757,3	-
2010	69728,8	45163,8	7451,7 <sup>h</sup>	12349,2 <sup>i</sup>	4764,1	-
2011	104304,0	79441,0	8210,5 <sup>h</sup>	111241,25	4637,85	773,4

<sup>a</sup> – according to the Federal Agency for State Property Management of Russia, the Law “On the Implementation of the Federal Budget for 2000” contained no separate line for these; the amount of payments from state-owned enterprises (Rb 9887,1m) was specified (no specific elements were shown);

<sup>b</sup> – amount of rental for (i) agricultural lands and (ii) lands of cities and settlements;

<sup>c</sup> – total revenues from leasing of the property assets secured to (i) research institutions, (ii) educational institutions, (iii) medical institutions, (iiii) public museums, public institutions of arts and humanities, (iiiii) archive institutions, (iiiii) Ministry of Defense of Russia, (iiiii) organizations under the Traffic Ministry of Russia, (iiiii) organizations providing services to public academies of science and (iiiii) other revenues from leasing of state-owned property assets;

<sup>d</sup> – according to the Federal Agency for State Property Management of Russia, the Law “On the Implementation of the Federal Budget for 2001” contained no separate line for these; the value coincided with the value of other revenues from payments due by public and municipal organizations;

<sup>e</sup> – total amount of revenues from lease of state-owned property assets (without specifying land rental);

<sup>f</sup> – amount of rental for (i) lands of cities and settlements and (ii) state-owned land after the delimitation of land ownership;

<sup>g</sup> – total revenues from leasing of the property assets secured to (i) research institutions, (ii) educational institutions, (iii) medical institutions, (iiii) public institutions of arts and humanities, (iiiii) public archive institutions, (iiiii) federal postal agencies under the Federal Communications Agency, (iiiii) organizations providing services to public academies of science and (iiiii) other revenues from leasing of federally owned property assets;

<sup>h</sup> – rental after the delimitation of land ownership and proceeds from sale of the right to conclude contacts on leasing of state-owned land (net of land plots owned by autonomous (2008–2011) and state-funded (2011) institutions);

<sup>i</sup> – revenues from leasing of property assets which are operatively managed by federal government bodies and the institutions established thereby and on the basis of economic management by FSUEs: transferred for the purpose of state-status operating management (i) scientific institutions, (ii) institutions providing scientific services under the Russian Academy of Science and industry-specific academies of science, (iii) educational institutions, (iiii) medical institutions, (iiiii) federal postal agencies under the Federal Communications Agency, (iiiii) public institutions of arts and humanities, (iiiii) public archive institutions and (iiiii) other revenues from leasing of property assets which are operatively managed by federal government bodies and the institutions established thereby and on the basis of economic management by FSUEs<sup>1</sup> (for 2006–2009 net of overseas reve-

<sup>1</sup> In 2008-2009, FSUEs, as a source of revenues from leasing of property assets being under economic management thereby, were not mentioned, and leasing of property assets being under operating management by federal government authorities and the institutions established thereby excludes property assets owned by federal autonomous institutions.

nues from permitted types of activity and the use of federal property assets located overseas, which were not shown in the previous years<sup>1</sup>);

<sup>j</sup> – revenues from leasing of property assets which are operatively managed by federal government bodies and the institutions established thereby (save for state-funded and autonomous institutions): transferred for the purpose of state-status operating management (i) scientific institutions, (ii) institutions providing scientific services under the Russian Academy of Science and industry-specific academies of science, (iii) educational institutions, (iiii) medical institutions, (iiiii) public institutions of arts and humanities, (iiiii) public archive institutions, (iiiii) on the basis of economic management by the Ministry of Defense of Russia and its subordinated bodies, (iiiii) federally owned with functions of disposing thereof being assigned to the Department for Presidential Affairs of the Russian Federation (2010) and (iiiii) other revenues from leasing of property assets which are operatively managed by federal government bodies and the institutions established thereby (net of overseas revenues from permitted types of activity and the use of federal property assets located overseas).

*Source:* The laws on the implementation of the federal budget for the period of 2000–2010, the Report on the Implementation of the Federal Budget as of January 1, 2012, www.roskazna.ru; IET's estimates.

Proceeding to analysis of preliminary results of the budget effect of the state property policy in 2011 with regard to renewable sources, first of all it is worth noting that dividends were growing and their value visibly increased 76% vs. 2010. Transfers of a part of the profit of unitary enterprises decreased a bit (less than 3%). A similar picture was seen in budget revenues from leasing. Revenues from leasing of land kept growing (more than 10%) like they did in 2010 as revenues from leasing of federal property decreased by 9%.

Finally, the dividends which were accumulated in the budget (Rb 79,44bn)<sup>2</sup> and land rental (Rb 8,21bn) exceeded in terms of absolute value all of the previously reported indicators. Transfers of a part of the profit of FSUEs (Rb 4,64bn) were found to be maximum too throughout the entire 2000x, save for 2010. In the meantime, revenues from leasing of property assets were continuously dropping since 2008 to reach the level of 2004.

The structure of the federal budget revenues from renewable sources saw continued growth of dividends in percentage terms (more than 76% in 2011 vs. 64.8% in the preceding year). The percentage of other sources decreased vs. 2010: by 10.8% for revenues from leasing of property assets, 7.9% from leasing of land, 4.4% for the profit transferred by FSUEs.

Proceeding to analysis the federal budget revenues from privatization and sale of state-owned property (*Table 10*), it should be noted that since 1999 revenues from sale of a major part of such assets (shares, and also land plots in 2003–2007<sup>3</sup>) became classified as sources of financing of the federal budget deficit.

<sup>1</sup> According to the Federal Agency for State Property Management, revenues from the use of federal property assets located overseas (net of revenues of the Russian participant in Vietsovpetro Joint Venture), totaled Rb 315m in 1999 and Rb 440m in 2000. Thereupon, Overseas Management Enterprise, a FSUE, began to play the key role in organizing commercial use of federally owned immovable property assets located overseas.

<sup>2</sup> This value also exceeds the aggregate value of federal budget revenues prior to the crisis in 2007 from domestic dividends on shares of Russian JSCs (Rb 43,5bn) and revenues from the Russian participant in the Vietsovpetro Joint Venture (about Rb 10,5bn). After completion of the development program for OJSC Zarubezhneft, during which a 50% interest held by the Russian participant in the Vietsovpetro Joint Venture was contributed to the Zarubezhneft charter capital in 2007 along with the shares of two joint stock companies as research institutes, this source of federal budget revenues ceased to exist and was not even recognized in the structure of revenues from renewable sources in 2008–2010. In 2011, Vietsovpetro Joint Venture's revenues (Rb 773,4m) were transferred to the federal budget in terms of settlements on revenues generated in the previous years.

<sup>3</sup> In 2003–2004, given the sale of leasehold right.

Table 10

**Federal budget revenues from privatization and sale of property assets  
(non-renewable sources) in the period between 2000 and 2011, Rb m**

Year	Total	Sale of federally held shares (2000–2011) and other forms of interest holding (2005–2011) <sup>a</sup>	Sale of land plots	Sale of various types of property
2000	27167,8	26983,5	-	184,3 <sup>b</sup>
2001	10307,9	9583,9	119,6 <sup>c</sup>	217,5+ 386,5+0,4 (IAs) <sup>d</sup>
2002	10448,9	8255,9 <sup>e</sup>	1967,0 <sup>f</sup>	226,0 <sup>g</sup>
2003	94077,6	89758,6	3992,3 <sup>h</sup>	316,2+10,5 <sup>i</sup>
2004	70548,1	65726,9	3259,3 <sup>j</sup>	197,3+1364,6+0,04 (IAs) <sup>k</sup>
2005	41254,2	34987,6	5285,7 <sup>l</sup>	980,9 <sup>m</sup>
2006	24726,4	17567,9	5874,2 <sup>n</sup>	1284,3 <sup>o</sup>
2007	25429,4	19274,3	959,6 <sup>p</sup>	5195,5 <sup>q</sup>
2008	12395,0	6665,2+29,6	1202,0 <sup>r</sup>	4498,2+0,025 (IAs) <sup>f</sup>
2009	4544,1	1952,9	1152,5 <sup>s</sup>	1438,7 <sup>t</sup>
2010	18677,6	14914,4	1376,2 <sup>u</sup>	2387,0+0,039 (IAs) <sup>f</sup>
2011	136660,2	126207,5	2425,2 <sup>u</sup>	8027,5 <sup>t</sup>

<sup>a</sup> – refer to sources of internal financing of the federal budget deficit, total amount of Rb 29,6m in 2008 (according to the data provided in the Report on the implementation of the federal budget as of January 1, 2009) was classified as federal budget revenues but not specified in the Federal Law “On the Implementation of the Federal Budget in 2008”;

<sup>b</sup> – revenues from privatization of state-owned organizations classified as sources of internal financing of the federal budget deficit;

<sup>c</sup> – revenues from sale land plots and leasehold rights to state-owned land plots (specifying the land plots on which privatized enterprises are located) classified as federal budget revenues;

<sup>d</sup> – amount of proceeds from (1) sale of federally owned property classified as sources of internal financing of the federal budget deficit, (2) revenues (i) from sale of living quarters, (ii) from sale of public productive and nonproductive assets, means of transport, other equipment and other tangible assets, as well as (3) revenues from sale of intangible assets (IAs) classified as federal budget revenues;

<sup>e</sup> – including Rb 6m from sale of shares held by constituent territories of the Russian Federation;

<sup>f</sup> – revenues from sale of land and intangible assets, without specifying the amount of proceeds therefrom, classified as federal budget revenues;

<sup>g</sup> – proceeds from sale of state-owned property (including Rb 1,5m from sale of the property owned by constituent territories of the Russian Federation) classified as sources of internal financing of the federal budget deficit;

<sup>h</sup> – includes proceeds (1) from sale of land plots, which include immovable property assets owned by the federal government prior to transfer, to be allocated to the federal budget, (2) from sale of other land plots, as well as from sale of the right to conclude contracts on leasehold thereof, (3) from sale of land plots prior to the delimitation of land ownership, as well as from sale of the right to conclude contracts on leasehold thereof, to be allocated to the federal budget, classified as sources of internal financing of the federal budget deficit;

<sup>i</sup> – the amount (1) of proceeds from federally owned property classified as sources of internal financing of the federal budget deficit, and (2) revenues from sale of intangible assets classified as federal budget revenues;

<sup>j</sup> – includes proceeds (1) from sale of land plots prior to the delimitation of state ownership of land, which include immovable property assets owned by the federal government prior to transfer, to be allocated to the federal budget, (2) from sale of other land plots, as well as from sale of the right to conclude contracts on leasehold thereof, (3) from sale of land plots prior to the delimitation of land ownership, as well as from sale of the right to conclude contracts on leasehold thereof, to be allocated to the federal budget, classified as sources of internal financing of the federal budget deficit;

<sup>k</sup> – the amount (1) of proceeds from federally owned property classified as sources of internal financing of the federal budget deficit, (2) revenues (i) from sale of living quarters, (ii) from sale of equipment, means of transport and other tangible assets, to be allocated to the federal budget, (iii) from sale of ship utilization products, (iiii) from sale of the property owned by SUEs, institutions and military equipment, (iiiii) from disposal of military products, equipment and ammunition, (3) revenues from sale of intangible assets (IAs) classified as federal budget revenues;

<sup>l</sup> – includes proceeds (1) from sale of land plots prior to the delimitation of state ownership of land, which include immovable property assets owned by the federal government prior to transfer, (2) from sale of land plots prior to the delimitation of land ownership, to be allocated to the federal budget, (3) from sale of other land plots which were owned by the state prior to the delimitation of state ownership of land and are not to be used for housing construction (the latter update is referred to 2006 only) and are classified as sources of financing of the federal budget deficit;

<sup>m</sup> – revenues from sale of tangible and intangible assets (net of federal budget revenues from disposal and sale of confiscated and other property converted into state income), include revenues (i) from sale of living quarters, (ii) from sale of the property of FSUEs, (iii) from sale of the property operatively managed by federal institutions, (iiii) from sale of military property, (iiiii) from disposal of military products, equipment and ammunition, (iiiii) from sale of other federally owned property, (iiiii) from sale of intangible assets, classified as federal budget revenues;

<sup>n</sup> – revenues from sale of tangible and intangible assets (net of revenues which represent a public share in profit products in executing product sharing contracts (PSCs) and federal budget revenues from disposal and sale of vacant, confiscated and other property converted into state income), include revenues (i) from sale of living quarters, (ii) from sale of the property of FSUEs, (iii) from sale of the property operatively managed by federal institutions, (iiii) from sale of military property, (iiiii) from disposal of military products, equipment and ammunition, (iiiii) revenues from sale of other federally owned property classified as federal budget revenues;

<sup>o</sup> – proceeds from sale of land plots prior to the delimitation of land ownership, which were owned by the federal government and are classified as sources of financing of the federal budget deficit;

<sup>p</sup> – revenues from sale of tangible and intangible assets (net of revenues which represent a public share in profit products in executing product sharing contracts (PSCs) and federal budget revenues from disposal and sale of vacant, confiscated and other property converted into public revenues, proceeds from sale of sequestered lumber), include revenues (i) from sale of living quarters, (ii) from sale of the property of FSUEs, (iii) from sale of the property operatively managed by federal institutions, (iiii) from sale of released movable and immovable military and other property available at federal government executive bodies in which military and equivalent to military services are envisaged, (iiiii) from sale of military products available in federal government executive bodies within the framework of military and technical cooperation, (iiiii) revenues from sale of other federally owned property classified as federal budget revenues;

<sup>q</sup> – revenues from sale land plots owned by the state (save for land plots of federal autonomous and state-funded (2011) institutions), classified as federal budget revenues;

<sup>r</sup> – revenues from sale of tangible and intangible assets (net of revenues which represent a public share in profit products in executing product sharing contracts (PSCs) and federal budget revenues from disposal and sale of vacant, confiscated and other property converted into public revenues, proceeds from sale of sequestered lumber, revenues from sale of special raw materials and fertile materials), include revenues (i) from sale of living quarters, (ii) from sale of the property operatively managed by federal institutions (save for state-funded and autonomous institutions (2011), (iii) from sale of released movable and immovable military and other property available at federal government executive bodies in which military and equivalent to military services are envisaged, (iiii) from disposal of military products, equipment and ammunition, (iiiii) from sale of military products available at federal government executive bodies within the framework of military and technical cooperation (2008 and 2010–2011), (iiiii) from disposal of military products, equipment as part of the federal special program on Industrial Utilization of Arms and Military Equipment for the period of 2005–2010, (iiiii) revenues from sale of other federally owned property, as well as revenues from sale of intangible assets (IAs) classified as federal budget revenues;

*Source:* The laws on the implementation of the federal budget for the period of 2000–2010, the Report on the Implementation of the Federal Budget as of January 1, 2012, [www.roskazna.ru](http://www.roskazna.ru); IET's estimates.

A rapid, more than 7-fold growth in the federal budget property-related revenues from nonrenewable sources took place in 2011 against the preceding year, which is comparable with the results of 2003, when a 9-fold growth was reported.

Proceeds from sale of shares increased most (by 8.5 times) and exceeded by 40% in terms of absolute value (Rb 126,2bn) the best results since 2003. However, it should be understood



that most of these revenues were generated from a single transaction with 10% shares of OJSC VTB Bank (Rb 95,68bn).

Revenues from sale of various types of property increased almost 3.4 times, revenues from sale of land plots increased by 76%. While the revenues from the former exceeded in terms of absolute value (more than Rb 8bn) the previous maximum (Rb 5,2bn) in 2007, federal budget revenues from sale of land plots were much less (more than Rb 2,4bn) than in 2003–2006, but exceeded by 2–2.5 times those in 2007–2010.

All in all, proceeds from sale of shares in 2011 accounted for more than 92% of total revenues from nonrenewable sources vs. almost 80% in 2010. Other sources of revenues were insignificant: revenues from sale of various types of property stood at 5.9% (13% in 2010), revenues from sale of land stood at mere 1.8% (7.4% in 2010).

Total federal budget revenues from privatization (sale) and the use of state-owned property assets (*Table 11*) in 2011 increased more than 2.7 times vs. 2010. The reached an absolute maximum of about Rb 241bn from the beginning of the 2000s.

*Table 11*

**Structure of federal budget property-related revenues from various sources  
in the period between 2000 and 2011**

Year	Total revenues from privatization (sale) and use of state-owned property assets		Revenues from privatization (nonrenewable sources)		Revenues from the use of state-owned property assets (renewable sources)	
	Rb m	% of total	Rb m	% of total	Rb m	% of total
2000	50412,3	100.0	27167,8	53.9	23244,5	46.1
2001	39549,8	100.0	10307,9	26.1	29241,9	73.9
2002	46811,3	100.0	10448,9	22.3	36362,4	77.7
2003	135338,7	100.0	94077,6	69.5	41261,1	30.5
2004	120798,0	100.0	70548,1	58.4	50249,9	41.6
2005	97357,4	100.0	41254,2	42.4	56103,2	57.6
2006	93899,8	100.0	24726,4	26.3	69173,4	73.7
2007	105761,25	100.0	25429,4	24.0	80331,85	76.0
2008	88661,7	100.0	12395,0	14.0	76266,7	86.0
2009	36393,7	100.0	4544,1	12.5	31849,6	87.5
2010	88406,4	100.0	18677,6	21.1	69728,8	78.9
2011	240964,2	100.0	136660,2	56.7	104304,0	43.3

*Source:* The laws on the implementation of the federal budget for the period of 2000–2010, the Report on the Implementation of the Federal Budget as of January 1, 2012, [www.roskazna.ru](http://www.roskazna.ru); IET's estimates.

Nonrenewable sources in the structure of total revenues from privatization (sale) and the use of state-owned property assets in 2011 increased by more than 2.5 times (up to 56.7%) vs. the preceding year and doubled a half thereof for the first time over the last 7 years. The foregoing value is comparable with the results of 2000 and 2004, and a bit smaller than those in 2003 (69.5%). On the contrary, revenues from the use of state-owned property assets decreased from 79% in 2010 to 43.3% in 2011. In the meantime, the results of 2011 were maximum in terms of absolute value and outstripped by 30% the results 2007, while revenues from privatization (sale) of property outstripped by 45% the previous maximum (2003)

The results of privatization in 2011 allows one to assume that the “new privatization policy” which was under discussion in 2009–2011 and supported by a series of legal updates, has a chance, under otherwise equal conditions, to be implemented in full in the ensuing years.