

The Russian Market for Mergers and Acquisitions: Stages, Peculiarities and Outlooks*

by

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Abstract

The article deals with the key trends in the development of Russia's market of mergers and acquisitions in 2000s. The quantitative parameters are being analyzed on the basis of data bases for 2003-2008 which are in an open access. New tendencies due to 2008 financial crisis are also considered. The author focuses on the proactive role of the state on the corporate control market. Special consideration was given to the issues of the development of Russia's legal norms system which regulate the market of mergers and acquisitions.

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Stages of formation and quantitative dynamics

In Russia the process of post-privatisation property redistribution had ended by the beginning of the 21st century whilst the US economy had undergone five waves of mergers and acquisitions for over one hundred years. However, in 2003 Russia was named as the main driver of the mergers and acquisitions (M&A) market in Central and Eastern Europe. In the relatively short history of the development of the Russian M&A market we may point out, somewhat arbitrarily, several important stages.

The first stage (1993 to the 1998 crisis) was primarily associated with the mass privatisation of state property. Considering privatisation transactions “acquisitions through privatisation”, these were the most common type of transaction during this period. This type was topical both independently and within the expansionary strategy of the first financial-industrial groups (FIG) (mainly, informal banking groups). It was the privatisation that led to the formation of the majority of the large Russian FIGs. Many banks (financial groups) and portfolio investment funds practised acquisitions of companies in various industries for their own needs and for further resale to non-residents and to strategic investors. During the first half of the 1990s individual attempts to use classic acquisition techniques were observed, mainly, in industries which did not require a high concentration of financial resources.

The results of a statistic analysis of 497 large and medium-sized enterprises during 1996-1999 are interesting: over 35% of enterprises in the sample had undergone a split-off or demerger. This means that M&A processes (apart from privatisation-related processes) during the period in question were being used quite extensively. However, a part of the above reorganisation was carried out for “speculative” purposes (e.g. to transfer assets into new legal entities to avoid debt, etc.) although, in most cases, the composition of the business assets was modified within legal boundaries. Furthermore, in this analysis, the statistical independence between the reorganisational activity and the privatisation processes was revealed: about 1/3 of the reorganisation processes analysed were carried out before the commencement of privatisation, 1/3 - simultaneously with the privatisation processes and 1/3 - after the major part of the privatisation processes had been completed¹.

One of the peculiarities of the mergers and acquisitions taking place at that time was that these processes were relatively uniformly spread across the whole of Russia. In later periods (starting from 1999) they were mainly concentrated in the central regions of Russia in addition to those regions with high concentrations of industrial assets².

The second stage (“post-crisis boom” of 1999-2002 during the growth recovery period) was associated with property redistribution after the 1998 crisis. It was characterised by a high level of activity in the hostile takeover market and a large proportion of “speculative” M&A transactions in the total market. The specific causes which led to the wave of mergers and acquisitions manifested themselves clearly. Further consolidation of share capital had become the main driver for their activation.

Given the specific nature of the methods applied, some analysts preferred not to use term “mergers and acquisitions”, limiting themselves to the notional concept of “property redistribution”. The expansion of industrial groups was combined with a strengthening of the processes of asset consolidation, mainly around existing and newly created business groups.

The post-crisis financial situation facilitated the acceleration of mergers and acquisitions in the economic sectors where there had been a potential willingness for it before the crisis. The process of mergers and acquisitions, originally initiated by the major oil companies, became typical of the ferrous and non-ferrous metal, chemical, coal, machine-building, food, pharmaceutical and forestry industries. The conversion of oil companies to a single share may be viewed as a type of merger.

At the second stage, when many companies, including large ones, became victims of the 1998 crisis, there began a large-scale application of the methods of Russian hostile takeovers (“corporate takeovers”, “corporate raiding”), which took advantage of gaps in the legislation governing the activities of legal entities and the corruptness of the government administration. Raider companies appeared in the market with the purpose, not to develop the main activities of an enterprise, but to transfer and sell its most valuable assets. Companies which owned attractive real estate properties were the main target.

Despite a whole range of restrictions (the need for the consolidation of major shareholdings, the clear and documented ownership structure in corporations, substantial liquid resources) hostile takeovers (i.e. the corporate control market itself) became the most prominent form of acquisition in Russia. If we take into account the entire range of traditional (internationally accepted) and Russia-specific acquisition methods (e.g. through bankruptcy in 1998-2002), we find an enormous number of such transactions, especially after 1998.

Around 2003, when the formation of vertically integrated structures was over and the political risks had increased, the activity of big business in the internal market for mergers and acquisitions had reduced considerably. This “reorganisational reduction” was mainly associated with the primary completion of consolidation processes, an incipient transition to legal and economic restructuring of the “informal” holdings (groups), together with the legalisation and preservation of ownership rights to business assets. Medium-sized integrated structures - second and third tier companies - took an active part in this process³.

The third stage (economic growth from 2003 to the beginning of the 2008 crisis) was characterised by a high degree of state participation (major companies and banks) in the M&A processes, an increase in the proportion of “civilized” transactions and positive dynamics in the use of transparent mechanisms for property restructuring, including the use of equity market instruments in the transactions.

This period was characterised by a steady increase in activity in the M&A market, both in the number and value of the transactions (in 2007 the total value of transactions was 124 billion dollars compared to 19 billion in 2003, i.e. an increase of almost seven times; the number of transactions grew as well - from 180 in 2003 to 486 in 2007)⁴. Up to 2008 the oil, metallurgy and communications sectors moved forward and stabilised as leading industries by volume of transactions. In 2007 the volume of the M&A market accounted for more than 10% of GDP compared to 4.5% in 2006.

In 2004 the average value of a transaction, compared to the preceding year, had increased by 40%. In 2005-2006 the growth slowed down somewhat, accounting for 17% and 4% respectively compared to the preceding year. The highest growth in the average transaction value was observed in 2007 (130%). However, it should be noted that transactions with values of 30-40 million dollars, involving the assets of enterprises which would be deemed ‘medium-sized’ in Western countries, predominated in the Russian market. This can be explained by the fact that the most liquid and attractive assets had already found owners, as groups of major players formed in each industry. In 2008 the average transaction value increased by 30% compared to the preceding year, despite the reduction in their number while in 2003-2008 about 116 transactions with a total value exceeding 500 million dollars (or 6.3% of total transactions for this period) had been conducted.

Amongst the specific features, which distinguished the Russian M&A market during this period from the capital consolidation processes accepted in Western practice, are the following:

- weakness of direct control by the regulating authorities over the M&A processes taking place;
- the low level of involvement of the instruments of an organised equity market in the M&A processes (most transactions were performed with the equities of private, rather than public, companies, although a positive trend was observed, as mentioned above);
- inability of minority shareholders substantially to influence the companies' activities;
- situations where the main owner was simultaneously the company's CEO;
- the lack of transparency of ownership of formally public companies (the ultimate beneficiaries);
- a concentration of substantially larger shareholdings in the hands of a few individuals compared with those in Western public companies;
- the large proportion of M&A transactions performed through offshore companies.

According to some estimates the aggregate number of offshore companies established by Russian residents is (at around 100 thousand) 3.5 - 4% of the world total⁵. In the first few years of this century the use of offshore companies accumulating their main corporate income as elements of Russian holdings became widespread. The problem of creating control mechanisms covering the assets and activities of offshore companies is being actively discussed by the Ministry of Finance of the Russian Federation and the Federal Anti-monopoly Service; however no radical solutions have yet been developed. The Russian market is also characterised by the large proportion of transactions involving foreign (formal) participation: around 22% of the total Russian market in 2007 (35% in 2006). Purchases by foreign investors exceeded the activity of Russian investors abroad.

In 2003-2008 the complete acquisition of a target company was the most common, confirming the tendency to seek total control, as was traditional for the Russian corporate sector. This was typical for almost all industries and regions, no direct dependence being evident between a preferred method of merger and acquisition and the industry or geographical location of the transaction participants.

In the M&A market the proportion of the total number of transactions over the entire period reached 88.2% (82.45% in monetary value) for such forms of enterprise integration - by

obtaining full control over a company⁶. The number of transactions for the acquisition of “half” of an object (either 50% of shares or a 50% share in the authorised capital) was 5.8% of the total number of transactions (6.4% of the total value of transactions). The acquisition of a block shareholding of between 26-49% of a company was observed in 4.3% of transactions (4.6% of the total value of transactions). Share blocks of 1-25% were acquired in 1.6% of transactions (1.8% of the total value of transactions). The trends for the number of transaction in relation to the size of the share acquired are shown in figure 3.

It should be noted that out of the 1,393 transactions analysed 1,221 were related to obtaining control over a domestic company (66% of the total value of transactions). For EU companies which acquired an enterprise in the territory of the RF: 91% obtained full control over such enterprises, 4% acquired “half” of a company and 2% obtained a block shareholding (i.e. 26-49% of the authorized capital). Buyers from CIS countries obtained full control in 80% of transactions while 20% obtained half of their target Russian company. For companies from other foreign countries: 88.5% obtained control over Russian companies by full acquisition, 6.4% acquired “half” of a company and 5.1% obtained a share of up to 49% in the enterprise concerned.

During this period the number of transactions with leverage buy-out (LBO) and management buy-out (MBO) increased. In 2006 the proportion of such transactions was about 4% of the total. Almost all MBO transactions in Russia were carried out with leverage buy-out due to a lack of equity in most cases⁷.

In other words, processes had developed to a certain extent, in a manner, which in the US market at the end of the 1980s, had become known as LBO financing by IPO and the issue of “junk” bonds. The essence of the transactions was a mass borrowing on the stock market, using leverage to buy-up companies and to acquire their assets. The primary risk of such transactions is the low efficiency of the companies acquired, which may mean, among other things, a lack of funds to repay the amounts borrowed for acquiring them. In the USA the “junk” bond market

ended in a great collapse of borrowing companies in 1989 and at the new stage of development with respect to somewhat different conditions and instruments — in summer-fall 2008. In Russia the specific feature of the LBO market is its unorganized nature, i.e. M&A transactions using borrowed funds are carried out not by professional intermediaries such as direct investment funds but by managers and owners of companies who perform such transactions alongside their operational activities⁸.

The closed nature of a considerable proportion of the M&A transactions was the result of seeking to preserve confidentiality, in order not to disclose information on beneficiaries and to avoid undesired transactions by competitors, including hostile takeovers and the seizures of company assets.

However the increasing proportion of “civilized” forms of transaction and some slowdown in the most odious “raids” did not mean that the problem of “hostile takeovers” and the criminal seizures of company assets became less relevant in this period. In 2007, in Russia, 107 public corporate conflicts were simmering and the total value of assets relating to those conflicts was about 7 billion dollars⁹. According to more general estimates, the share of hostile takeovers may have accounted for 40% of the total volume of public transactions.

Meanwhile, the active use of administrative resource and non-market methods for the acquisition of assets by the State and State-owned companies meant a transition to a new system of raiding - at the State level. Along with the creation of state corporations, criminal proceedings had been brought against the owners of some of the largest assets, and their seized assets were later transferred into state ownership.

Factors such as the high concentration of ownership, weak market institutions and judicial systems, non-transparency of ownership rights and corruption have systemically influenced the activities in the Russian M&A market. In turn, the low level of transparency relating to transactions, a lack of professional intermediaries in this field and the active

participation of State-owned companies in these processes confirm, in particular, the problems with the effectiveness of the market for corporate control.

With the start of the 2008 financial crisis we can perhaps refer to a fourth stage in development of the Russian M&A market. Experts are almost unanimous in their general assessment of its outcome: a sharp decline compared to 2007 - the first after the period of stable growth from 2002-2007. Absolute estimates of the decrease in the market capacity vary depending on the methods applied: by 36% (between 120 and 122 billion dollars to 77.5 billion dollars, if transactions with values of over 5 billion dollars are taken into account - M&A Intelligence), or by 9%, to 120 billion dollars, of which almost 100 billion was used for the acquisition of Russian assets (in this case taking all transactions into account - Ernst&Young). In 2008 the ratio of the M&A market to GDP was about 7% (10% in 2007).

The estimates for the outlooks of this market in 2009-2010 are much more contradictory. A further decrease in its capacity (to 60% of the 2008 level) is forecast. Forecasts of qualitative tendencies are also contradictory - from a continuing reduction of the market size (due to difficulties with working capital and access to external financing) to its activation due to the purchase of distressed assets and companies. It is evident that despite an overall decline in the M&A market because of the financial crisis this channel still remained "operational" for those business entities which retained liquidity and were able to use it to buy depreciating assets (from May 2008 to February 2009 the capitalisation of the Russian equity market decreased by a factor of four - from 1.5 trillion to 370 billion dollars).

Meanwhile, insider activities (primarily by major shareholders and senior managers) became more intense. In the summer of 2008 some companies were buying back their own shares on the open market (for example, Norilsk Nickel, MTS). According to the available data on the dynamics of the transactions of shareholders of five hundred of the largest public companies the number of transactions for the sale by management of their shareholding in their companies dropped sharply in the second half of 2008. In contrast, growth was noted¹⁰ in the

number of transactions in which insiders were buying shares in their own companies (even in cases where they had previously been sellers on multiple occasions). As shown below, under the conditions of the crisis, such a policy (subject to certain reservations) became typical of the State as well.

The mandatory sale of the securities of Russian companies pledged as collateral for bank loans (margin calls), by 2008 had already become another channel of asset redistribution (including for foreign assets). Yet, most companies managed to retain their assets. One of the peculiarities of the Russian credit market is the dominant position of banks in the corporate credit portfolio (in September 2008 - 92.7%, of the total loan portfolio of Russian banks for the non-financial sector: 11.8 trillion rubles). However, for them, the practice of margin calls is not typical. According to available information, Sberbank of Russia, being the largest lender to the non-financial sector (over 1/3 of the total loan portfolio), does not provide for such a possibility. VTB has become the only one of the few large Russian lenders (about 10% of the loan portfolio), which has applied this mechanism in practice¹¹.

The transfer of assets may also be caused by the start of defaults on corporate debt obligations. By the beginning of November 2008 the total value of default issues was about 30 billion rubles. By the beginning of 2009 it was evident that precedents were being set for the settling of debt obligations by the transfer of assets to the lending banks (primarily those companies involved with construction, retail, mobile connection, food product manufacture, etc.). Further sale of such assets is quite probable (simply due to the mismatch of the acquired assets to the profile of banking activities, lack of appropriate expertise etc.). This will lead to an intensification of the corporate control market. Moreover, the following tendencies may be expected to continue:

- maintaining stable market activity by performing “crisis” transactions;
- sale of “bad assets” at prices lower than their market value and the start of acquisition of assets which had not been previously included in the business strategies of those companies involved;

- growth in the number of transactions with a non-controlling share of the assets — already in the spring of 2008 a quantitative growth in this had been observed;
- increase in the number of transactions involving the assets of medium-sized enterprises which now have a more stable financial position;
- a considerable proportion of transactions occurring for the purchase of Russian companies by foreign ones.

However, in our opinion, the main factors which will determine at least the mid-term tendencies of the development of the M&A market, will be the policy of substitution of private capital with (pro-) State funding in the M&A segment in the Russian economy in general, and the use of accompanying non-market methods and “double standards” in relation to economic agents.

Anti-recession policy and the market for corporate control

The intensification of State operations in the Russian M&A market began around 2004. There was an obvious direct extension of its participation in the economy: six State corporations were created, there was a considerable increase in the assets of state-controlled companies etc. In particular, one of the largest companies “Russian Technologies” unified 444 enterprises, of which only 15% are profitable, according to its CEO, S. Chemezov. A whole range of projects relating to the creation of large State-controlled holdings and of State corporations is under discussion. In 2009 projects for the creation of State-owned companies were considered since State corporations as a legal entities could no longer be created in accordance with the “Law on Non-Commercial Organisations”; meanwhile the existing entities would have to be reorganised into other forms (funds or public companies).

The non-profitability of many industries, problems of ineffective management and, more importantly, the existence of non-economic motives are reasons for further changes in the legislation in order to provide special conditions for the functioning of State corporations. According to estimates by the Federal Anti-monopoly Service in 2008 State corporations having political, administrative and growing financial resources may exercise a dominant influence on

the general conditions of goods turnover on the commodity markets related to their areas of activities. Lessening of competition due to the formation of State corporations is driven by a variety of factors. Among them: the transfer to State corporations of certain State functions and powers for the implementation of State policy; the provision of State corporations with special conditions for carrying out business activities which exclude competition with private companies; the tendency of State corporations to create horizontally and vertically integrated structures in the interests of collective dominance.

Moreover, around the year 2004 the State started to take legal measures to protect, preserve and facilitate the process of accession of new assets. Such actions, in particular, were taken in the area of corporate regulation, bankruptcy and anti-monopoly laws. Already in 2006-2008 the problem of conflict of interests of the State acting as a regulator, on the one hand, and as an active participant in the M&A market, on the other hand, became obvious. Increased attention to the interests of State corporations and strategic enterprises (through which the former had originally expanded) led to a worsening of the quality of general State regulation of the corporate sector due to the application of narrowly specific standards, issued in the interests of the State sector, to all business entities.

For instance, on 30 December 2008 a new Federal Law No. 306-FZ “On Making Amendments to Certain Legislative Acts of the Russian Federation for the Improvement of the Procedure for the Recovery of Pledged Property” was adopted, and this created a mechanism for the out-of-court transfer of the rights to pledged shareholdings and other assets of Russian companies. Substantial changes were made to the procedures for, and conditions of retirement of the staff of limited liability companies and the pledge of their shares. We may also note the Draft Law “On Financial Recovery”, discussed in 2009, which was primarily aimed to serve the interests of major groups having significant debts.

The 2008 financial crisis worsened the conflict of public interest. The State as a regulator was trying to adapt legal provisions to the changed conditions of the M&A processes

caused by the financial crisis, but was meanwhile taking actions to ensure the best conditions for the acquisition of assets of interest by State-controlled companies.

A specific feature of this crisis is the active participation of the State and State-controlled business entities in the process of property redistribution. Moreover, the current situation has become almost the opposite of that which occurred in the period of loans-for-shares auctions (November - December 1995) when the government obtaining private financial resources to replenish the budget, and to ensure fulfilment of its obligations, it pledged the shares of 12 major (strategic) Russian companies. Among them, in particular, were shareholdings in YUKOS, LUKoil, Surgutneftegaz, Sibneft, Norilsk Nickel, Novolipetsk , NLMK, etc. However, no such pseudo loan was repaid which effectively meant the actual privatisation of these shareholdings at drastically lower prices, according to most estimates.

In the autumn of 2008 the roles diametrically changed: as was publicly announced: for reasons of “economic safety” the State expressed its readiness to refinance the foreign loans to both State and private companies, default on which risked leading to the loss of national control (on the part of the State or of the national capital) over strategic assets. This would mean, in particular, that the potential for actual nationalisation could affect not only the securities of State-sector companies in the strict sense (those with State participation in capital of over 50%) but also of strategic (notwithstanding all the uncertainty of this concept in the Russian legal field) companies within the private sector.

As early as 2006 a presumption¹² was made in the papers of the Institute of Economic Policy that the future prospects of companies with state participation, which had become the core of State expansion would depend on their ability to repay their loans, taking into account world energy prices. The most pessimistic forecast was based on a considerable reduction in the prices for energy resources on which the business activities of the largest State-owned companies-borrowers greatly depended. It was noted that when oil prices fell, the access to financial resources on external markets for refinancing of accumulated indebtedness was reduced. As a

result the cost of loan servicing rose. There were predictions of a possible outflow of short-term foreign capital, an equity market fall and problems in the banking system related to the reduction in liquidity.

In 2000-2005 the external debt of Russian State-owned companies grew many fold: in the year 2000, by 570 million dollars; 2002, by 12 billion; 2005, by 28 billion dollars, or from 30 to 40% of the total amount of external corporate debt. In particular, in 2005 the foreign debts of Sberbank, Vneshtorgbank, Vnesheconombank (VEB) and Rosselkhozbank were about 6.45 billion dollars (about 36% of the total funds borrowed by the Russian banking sector). The total amount of loans to Gazprom, Rosneft, Sovkomflot, OAO RZD, Transneft and ALROSY reached 28.2 billion dollars. In 2006 a new surge in debt occurred: the external indebtedness of non-financial companies and of commercial banks was 135.4 billion dollars and 78.5 billion dollars, respectively (with the share of State-owned companies being over 50% of Russia's total foreign corporate debt).

As of 01 July 2008, according to the Bank of Russia, the total external debt of Russian companies, banks and State authorities reached 527.1 billion dollars (in the second quarter of 2008 alone it grew by almost 50 billion dollars). The proportion of debt of financial organisations accounted for 191.3 billion dollars (debt growth during the quarter - over 21 billion dollars). The debt of non-financial organisations, not including their debt obligations to direct investors, was 263 billion dollars (increase in debt for the quarter — almost 25 billion dollars). Russia's external State debt of as of 01 July 2008 was about 41 billion dollars. According to estimates, the debts of State-owned companies and banks (for example, Gazprom - about 60 billion dollars, Rosneft - about 26 billion dollars, VTB - 11.4 billion dollars to be repaid by the end of 2009) accounted for about 50-60% of Russia's total external corporate debt. However, by the middle of 2008 no regulation and unification of the said processes had been implemented, despite the discussions with the State authorities.

As is commonly known, most of the debt of leading State-owned companies was related to transactions in the corporate control market in 2005-2007. In other words, a considerable share of the borrowed funds was not applied to develop existing business but was connected with the process of new property redistribution - purchase of assets, modification of the structure of share capital, etc. Unlike the coercive redistribution of previous years (the traditional example is the “YUKOS case”) the new phase, the leaders of which are State-owned companies and a range of companies supported by the government, is of a market-oriented and coercive nature. Assets are sold not quite voluntarily but at a price close to the market price (just remember the story of the acquisition of a 50% share in Sakhalin-2). As a result, the transition to a State-capitalist economy model facilitates market growth and attracts investment. Under conditions of high liquidity and a favourable macroeconomic situation State companies actively attract credit resources for the purchase of new assets and this leads to an increase in their capitalisation.

Formally, the State is not liable for the debt obligations of the mixed sector companies but de-facto these are viewed as sovereign debts. Moreover, for investors, investing in them becomes a source of guaranteed income because the State may provide to such companies both coercive and political support and support in the field of regulation (for example, the programme to increase gas prices for domestic consumers). This increases the popularity of Russian shares with offshore hedge funds which benefit additionally from any worsening of the institutional environment (especially the “double standards” policy). At the same time, foreign banks readily provide low-interest loans for the purchase of new assets by State-owned companies (we can note the remarkable increase in non-sovereign debt in the second quarter of 2008, i.e. when there was already a global financial crisis).

Obviously such a model of market growth is in many respects speculative because it is not supported by investing large capital volumes in manufacturing¹³. It is possible only in the case of the inflow of funds to emerging markets and increases in company revenues due to increases in the prices for products and an asset redistribution in their favour. Furthermore, such

speculative market growth hides the real problems and imbalances of the economy, related to the worsening institutional environment (along with State expansion into the business sector). We should recall that in the middle of 2008 the ten most capitalised companies provided 66% of the market capitalisation, half of which was attributed to the oil and gas production and processing sector¹⁴. A huge part of the flow of funds was provided by a narrow sector of leading companies supported by the government while redistribution of the investments in the economy was restrained by institutional weaknesses.

This model is clearly projected onto the situation of the financial crisis of 2008-2009, during which urgent support measures for Russian companies and banks were discussed. We shall name several areas in the overall set of anti-recession measures already taken by the RF in September-October of the last year and related to the expansion of the public sector.

1. State credits for servicing foreign loans of Russian companies and banks

According to available data, in the IV quarter of 2008 the estimated amount of payments of Russian companies for external debts was 47.5 billion dollars, in 2009 it was 115.7 billion dollars and taking into account a rollover of a part of the payment for 2008, about 140 billion dollars. Deposits placed by the Central Bank into Vnesheconombank - the Development Bank - (of 50 billion dollars) were sufficient to credit companies for the 2008 payments. However, at that time the terms and conditions for the provision of a loan were considered strict: the pledge of securities, pledge of export earnings, direct debit from any of the borrower's accounts for repayment of the loan, the inclusion of bank representatives on the borrower's management Board, obtaining the bank's consent to any other loans and transactions for the sale of assets valued at over 10% of the cost of the company, collateral similar to that provided for a foreign loan, etc. Plus VEB retained an unprecedented right to make decisions at its sole discretion on any increase of security and to make the choice between debt repayment or its "closure" by disposal of the security provided. By the middle of October 2008 requests for refinancing were received from Rosneft, VTB, Gazpromneft, TNK-BP, LUKoil, United

Company Rusal, Joint-Stock Financial Corporation Sistema, Severstal, Mechel, etc. With the minimum amount of refinancing set at the level of 100 million dollars (according to the “Memorandum on Financial Policy” of the bank) it could apply only to the biggest companies and banks.

2. Direct (anti-recession) State intervention in the equity market

In the middle of October 2008 a decision was made to allocate funds from the National Welfare Fund for the acquisition of the shares of Russian companies (350 billion rubles for 2008-2009). To date there has been no official data on the interventions made, the specific amounts invested and the shareholdings acquired. We should at least question the feasibility of monopolising almost all the operations in the Vnesheconombank - the Development Bank and the procedures for the selection of operators (professional intermediaries) for existing and future transactions, including the terms of the commission.

In this respect the question over the sources of the allocated funds is important. As is known, one of the key objectives of the National Welfare Fund (NWF) is the financing of pension reform. It would be quite rational, given the financial crisis, to transfer the shareholdings acquired using NWF funds to the Pension Fund (or substantial equivalent) to secure pension payments in the future (at the stage of capitalisation growth). In the existing non-transparent system it is unknown where and to whom these shareholdings, acquired by VEB in 2008 and probably in 2009-2010, will be transferred. No less important is the question of the transparency of the expediency criteria of each of these transactions and the public control thereof. All that is left to do is to document existing expert opinions regarding the absence of a general intervention strategy, any experience in the implementation of such anti-recession actions and on the differences in the market trends with respect to even a narrow circle of leading issuers.

Apparently, there were three possible trends: selective counteraction of margin calls; the acquisition of specific toxic assets; attempting market adjustments in favour of individual issuers identified by the government. What became particularly acute in this context was the problem of

insider trading and, in a broader sense, the general policy against any kind of financial abuse (embezzlement).

According to VEB, by the end of November, 2008 the Treasury of the Bank had received 115 billion roubles (from the National Welfare Fund). Eighty five billion roubles were spent to “support the financial market”. The funds were addressed to “the acquisition of shares and corporate bonds of the top Russian issuers”, and the actions under those operations “were approved by the Ministry of Finance”¹⁵. Although there is not any more recent data on this type of intervention, in February 2009, the question of VTB participation in this scheme was also under consideration.

3. Acquisition of preferred shares and convertible bonds (new issues) of the issuers of governmental interest

This support measure was considered in October 2008, as an extreme measure of last resort. This tool is used quite commonly in a number of countries (UK, Switzerland) to support troubled banking groups. Moreover, its application does not make it necessary for the state to interfere in the operational management or to have direct participation in stock equity.

By mid-2009 there was no information available on the financial resources allocated for that purpose and on any precedents. Nevertheless, such proposals were submitted, for example, at the end of January 2009 from OC Rusal (on the conversion into preferred shares of the company’s debt to public banks in the amount of 6 billion dollars; the pledge included 25% of Norilsk Nickel shares owned by Rusal). In this case the owners could retain control over the company and its assets. The other proposal of Rusal, for the creation of a large metallurgical company by the merger of Norilsk Nickel, Mechel, Uralkaliy and Metallinvest, with the provision of a fixed share to the State-owned corporation Rosoboronexport, was an alternative approach to the problem of retaining control over the company.

From the beginning of 2009, the support policy has undergone significant changes. There has been an overall shift of emphasis from the statements made last autumn: that “there is

enough money for everybody”, to the more balanced strategy of reserve preservation until 2010-2011 and of selective support for the largest State banks rather than the mass support of companies.

Through the above-mentioned programme of refinancing foreign loans in the corporate sector, about 100 applications were submitted to VEB, totalling 75 billion dollars. However, the programme was closed, when its expenditures reached 11 billion dollars. Among the recipients were: Rosneft (800 million dollars), UC Rusal (4.5 billion dollars), VympelCom, Euras and some others. On the one hand, the programme has been recognised as inexpedient since the majority of participants had accumulated sufficient foreign currency reserves and were able to solve their problems with creditors independently (about 85 billion dollars by February 2009, which was, according to the government’s estimates, sufficient to settle their credit payments in 2009¹⁶). On the other hand, the terms of such loans apparently seemed too strict to the applicants (which however, points to undisclosed internal resources of the companies which could solve their financial problems without tighter government control). However, there is almost no transparent public information on the selection criteria for government support to these subjects. It is unclear how VEB is going to use the pledged shareholdings in one year (the maximum term of financing).

Back in 2008, a discussion started of alternative (financial) approaches to the support of the Russian enterprises operating in “important sectors of the economy”. By the end of December 2008 the absolute number of potential recipients for short term state assistance had decreased 5-fold. Among the formal requirements for the inclusion of companies in the anti-crisis programme were such terms as: at least 5,000 employees, revenues of 15 billion rubles, or that the company is a principal employer and mainstay in its locality. VEB will therefore become the government agent in this trend towards State support. Companies will be able to use up to 50% of the government guarantees (enterprises within military-industrial complexes - up to

70%) as credit security. In this case the maximum amount of the public guarantee to each applicant is limited to 10 billion rubles.

Credit support instruments are provided for the 293 enterprises from 25 industries, which have eventually been included in the RF Ministry of Economic Development and Trade's list, but the range of possible solutions is much wider: the government guarantees, interest rate subsidies, restructuring of tax arrears, public contracts, customs and tariff policy. Some measures are provided on the mitigation of the "negative social and economic impact of businesses closure" appear to apply in the event of bankruptcy¹⁷.

By mid-February 2009, information was disclosed on the applications for government loan guarantees by the largest Russian manufacturers (AvtoVAZ, GAZ, Kamaz and Sollers) totalling 29.5 billion rubles. Among other methods of public support to the Russian car industry were envisaged the redemption of bonds up to 60 billion rubles and public procurement contracts in the amount of 12.5 billion rubles. In the defence sector decisions were taken on State guarantee provision to 3 enterprises, on subsidies for 19 enterprises and a recapitalisation of RSK MiG, amounting to 15 billion rubles. The State corporation, Russian Technologies (which has received 20 of the local economic mainstays and 278 strategic enterprises), has requested State guarantees to the value of 110.8 billion rubles (in addition to 151.32 billion rubles of material contribution)¹⁸.

By mid-March applications for government support had been submitted by almost all the so called strategic companies. Among them, only the applications of 26 enterprises with a total value of 350 billion rubles were considered and state guarantees for 213 billion rubles were provided. By March 2009 decisions had been made in relation to only 6 enterprises in the amount of 47.5 billion rubles¹⁹.

The range of anti-crisis support-measures is not especially in doubt but at least two issues remain unsolved. Firstly, the privileged list creates an obvious risk of undermining the market (microeconomic) incentives for "important industries" to overcome the challenges of the

crisis on their own. It would be fairer to have an open and selective tender procedure for support applications of any kind in the case of substantiated anti-crisis programmes from any Russian companies. Secondly, many of the problems faced by companies are not only associated with the crisis as such, but with management quality and the loan policies, carried out in 2005-2007. In providing any kind of public support it would be reasonable, to make it a mandatory requirement to replace the existing operational management, perhaps, similar to the anti-crisis management (if one ignores the threat of corporate raiding and team replacement for the remaining operating beneficiaries). Bankruptcy can also be regarded as a way of government anti-crisis intervention. In this case, the issue is not about company liquidation or disintegration but one of change of ownership or the introduction of supervision by the authorised government body.

In any case, it is too early to make more detailed assessments due to the lack of a critical mass of transactions actually performed, as well as insufficient public information, at least with regard to the scope and criteria for State intervention. However, there are grounds for considering the most pessimistic estimates at least in respect of the basis for the overall assessment of the institutional environment, which has become one of the typical “Russian” indicators of the current crisis in the Russian financial system²⁰.

Nevertheless we can legitimately infer the beginning of a new phase in State property expansion (even taking into account the objectively necessary anti-crisis component). If capitalisation of the Russian market were to be sustained at the level of mid-October 2008, then, according to a simple calculation, one could predict the increase of the public share in the corporate sector for 2009-2010 as being from 3-4% (the lower threshold) up to 9-10% due only to the funds, allocated for intervention in the stock market. The potential for further expansion of the state sector is impressive, although there is no certainty over the government’s plans as yet:

- retention of State ownership of pledged shares in the VEB refinancing programme from 2008 (11 billion dollars) with the decision making deadline being the end of 2009;
- retention of State ownership of shares acquired on the open stock market (350 billion dollars for 2009-2010), with the decision-making deadline being 2013-2014;

- further expansion of State-owned companies in the strict sense (despite the partial withdrawal of the allocated financial resources);
- acquisition by public banks of the assets of commercial companies, provided as security for loans and through direct acquisitions; the formation of new state holdings;
- an increasing State share in banking capital through the programme for recapitalisation of the banking system (40 billion dollars).

According to the Bank of Russia, the aggregate capital of Russian banks in early 2009 was 2.5 trillion rubles. At the stated level of recapitalisation declared for 2009, this means that the State may claim an additional 32% of bank capital during the overall growth of the State share to 75-80%²¹.

On its own the quantitative growth of direct government participation in the economy, or having a large permanent share of the latter, is not extraordinary in the current global situation, especially during the crisis. According to available estimates, by the end of 2008, as part of the framework of anti-crisis support, various countries spent about 1.4 trillion dollars on the capitalisation of companies and about 880 billion dollars on the acquisition of new assets. Nevertheless, amongst the leading global countries which are taking anti-crisis measures, large direct purchases of private assets in 2008 were performed only by the USA (663 billion dollars) and Norway (51 billion dollars), while Great Britain, France, Italy, Germany, the Netherlands and Japan carried out capitalisation without the direct purchase of assets²².

In fact, the financial crisis has already resulted, if not in contradictions, then at least in a very ambivalent situation.

On the one hand, the crisis events have focused attention on gaining a sound understanding of the scope of public sector expansion. The issues of managing an extended public sector in all its aspects seem to be recognised by the government. This is, apparently, confirmed by the gradual withdrawal of the government (during the crisis) from direct methods of support (by the direct public participation in the capital of distressed private companies and

banks). Moreover, the ability to launch “large-scale privatisation” has become one of the options discussed in the crisis rather than in terms of investment for economic growth.

On the other hand, there is no reason to speak about withdrawal from the principles of direct control: the suspension of direct “anti-crisis” expansion, has currently been replaced by stronger indirect control through a small number of banks, supported by the government, through the formation of preference lists of “significant” enterprises, and through the continued activity of State corporations and state holdings (the few market subjects with the opportunity for new mergers), together with the inevitable nationalisation of troubled assets in its “hard” or “soft” options (although this was not as extensive as expected).

As noted above, the state is considering the consolidation of the assets of the communications sector on the basis of Vnesheconombank²³, with the incorporation under the wing of Rosoboronexport of 11 air carriers into Rosavia²⁴, with the creation of a State corporation, the Russian Financial Agency (RFA). It was proposed to transfer into the management of the latter the funds of the National Welfare Fund from the Central Bank, and from VEB the pension savings and external and internal debt of the country²⁵. A decision was made to create Avtodor, as the national operator of the road network, while Russian Technologies begin to familiarise themselves with the pharmaceutical market.

In view of the above, the most topical issues will be the qualitative assessments of strategy, the objectives (incentives) and the long-term results (costs) of the process. The primary issue here is the economic efficiency of newly created conglomerate structures and State corporations.

New “large-scale privatisation”?

By mid-2008, it was evident, that the privatisation process was starting to slow down, if not to stop completely. Large-scale transactions in this area were rare within the preceding years (although the reasons were different), but the poor financial standing of potential buyers, as well as the reasonable reluctance of the government to dispose of any assets too cheaply in the face of

the crisis, urged a slowdown in the privatisation of medium and small objects too. In the autumn of 2008, in particular, such methods of privatisation which could beat down the price of the objects *apriori* undergoing minimum demand were suspended. A similar situation appeared to occur in regard to the renewable revenues from public property (the suspension of dividend payments by companies with a State participation and land repurchase, etc.).

According to the official data of the Russian Property Agency, in mid-January of 2009, there were 1,293,788 objects of movable and real property in the Register of Federal Property (including more than 1.1 million registration objects, owned by the holders of relevant legal property rights, together with about 107,000 state treasury objects). The Register also included 3,600 blocks of shares and nearly 67,000 land plots owned by the Russian Federation. About 5,700 Public Unitary Enterprises still remain in the ownership of the Russian Federation as well. The plan for 2008 envisaged the sale of share packages or public shares in 404 joint-stock companies and the privatisation (incorporation) of 440 Public Unitary Enterprises. The plan for 2009 (as of September, 2008) envisaged the sale of securities or public shares in 291 joint-stock companies and the incorporation of 235 Public Unitary Enterprises. Meanwhile, the annual federal budget revenues from the privatisation of federal property in 2008-2010 were estimated at 12 billion rubles.

According to some estimates, a number of innovations in the sphere of State management, that had been discussed or had already started to be implemented in 2008, could have served as a prelude to a new phase of “large-scale privatisation”. First of all, there was the appointment of independent Directors to the large joint companies, starting from the summer of 2008 (i.e the branding incentive to improve the quality of corporate management preceded the public offerings), the opportunity to extend the privatisation from 1 to 3 years (therefore allowing sufficient time for the entire cycle of preparations for the sale of a block of shares) and the potential incorporation (in the true sense of the word) of the State corporations, established in 2007-2008.

Even at the level of official comments, plans for new large-scale sales were cautiously related to the year 2010 with the quite realistic prospect of the crisis in the Russian economy lasting at least through 2009-2010 and this left the issue unresolved for a longer period (even if only with regard to economic factors, i.e., beyond the policy of state expansion). Nevertheless, two extreme scenarios are already quite evident.

The first scenario is clearly based on the forced return to the use of privatisation instruments to finance the growing budget deficit (as in the 1990s), despite the low cost of the disposed assets. In the macroeconomic context, it is possible to realise this scenario at the peak of a crisis, when oil prices are low, financial (gold) reserves are being exhausted and the budget deficit is growing. In essence we are speaking about the sale of public assets at bargain prices, although the internal motivation might be different: ranging from the short-term (due to the non-replaceable source) assurance of previous social commitments, up to the “non-transparent” allocation of assets, privatized very cheaply amongst a narrow range of subjects. The combination of these two options is quite realistic, although in the first case one can speak about misguided economic policy, and in the second case about future suspension of the model for “privatisation of profits and nationalisation of losses”.

The second scenario is a much more optimistic one, and is based on the premise of a “soft” exit from the crisis after 2010, the gradual restoration of the stock market capitalisation (the value of assets) and the beginning of individual sales in the new wave of economic recovery. Therefore “large-scale privatisation” should not be targeted at fiscal problems, but rather, as in 2000-2007, it should solve the problem of quantitative optimisation of the public sector and the government rejection of inappropriate functions in the management of business entities.

An alternative option to these two scenarios is still possible, i.e. further quantitative expansion of the public sector (direct and indirect) within the framework of the anti-crisis measures of direct control, followed-up by on-going State ownership of the objects obtained. In view of the anti-crisis measures, mentioned above, it is nevertheless possible to assume that the

indirect measures become predominant, which creates possibility for the implementation of both scenarios of privatisation.

Some prospects for the legal regulation of the market

For any economy it is essential to have effective State regulation of mergers and acquisitions, restructuring, share circulation, major transactions and other issues relating to the acquisition and retention of control over the assets of joint-stock companies. It is these areas of corporate management which, to a considerable degree, determine the business climate in the country and on which both investment growth and the credibility of the State depend.

The possibility for mergers and acquisitions arose with the creation of new open joint-stock companies, i.e. from the beginning of the 1990s. RSFSR Law No.948-1 dated 22 March 1991 “On Competition and Limitation of Monopolistic Activity on the Commodity Markets” introduced the standards for mandatory approval by the Anti-monopoly Committee of transactions for the merger and acquisition of joint-stock companies. The formation of the legal rules regulating corporate relations began in January 1995, after the first part of the Civil Code of the RF had come into force. It contained general guidelines on the reorganisation of legal entities, open joint-stock companies and the issue and circulation of new shares. The legal regulation of mergers and acquisitions was supplemented by the adoption of the Federal Law “On Joint-Stock Companies” which became effective on 01 January 1996.

In 1991-2008 the following legal provisions were adopted: main regulations on the reorganisation of companies; mechanisms for the acquisition of major shareholdings; methods and mechanisms of anti-monopoly control of M&A transactions; the system of special regulations on the mergers and acquisitions of companies with State participation, financial organisations, strategic enterprises, natural monopolies; certain mechanisms for the protection of the interests of minority shareholders (voluntary and mandatory purchase of shares, indirect claims).

However, the mechanisms created are not sufficiently effective. Thus the mechanism of company reorganisation hardly performs its function on the M&A market due to the vulnerability of a company in the course of reorganisation, together with the increased threat of loss of control, the highly formalised procedure which denies the reorganisation of economic feasibility, especially under rapidly changing market conditions and the length of time which the reorganisation takes.

The mechanisms of acquisition of shares by a major shareholder through a mandatory offer and mandatory sale implemented in 2006 took a step forward in the regulation of relations between major and minor shareholders. However, the implementation thereof is constrained by legal shortcomings in the adopted standards for price determination and the lack of appropriate conditions for their effective implementation.

The powers of the Federal Financial Market Service in the area of control of mandatory purchases are often limited to the verification of formal compliance by a controlling shareholder. In the absence of expressly defined legal powers for contesting an assessment and recognising invalid conclusions by an assessor, such administrative control is not able to have a positive effect. Legal regulations governing the power of this authority to contest the assessments of the redemption of shares must be extended, and the financing arrangements should provide sufficient means necessary for the conduct of an alternative assessment.

Among the uncivilised (and criminal) factors functioning in the Russian M&A market we should highlight the ineffective system of accountability of arbitrators and judges and of enforcement procedures. It is quite difficult to hold a judge criminally liable for violations of legal rules which have led to significant damage to participants in corporate conflicts. The court system in Russia, in addition to its main function of the administration of justice, traditionally performs an unspoken function of protection of State interests or of interests treated as such in major cases. We can only determine the direction of some adjustment situations:

- development of a system of measures for reducing the level of dependence of courts on executive authorities;
- modification of the system of distribution of cases in courts so that it is not performed at the discretion of a court chairman, on the one hand, and, on the other hand, would rule out the possibility of any contacts between participants in the proceedings and the judge prior to the case being heard;
- an analysis of the causes for the failure of the criminal laws governing crimes against justice, and the low efficiency of holding judges criminally liable;
- development of an effective mechanism for holding judges to account, which would provide a clear distinction between a miscarriage of justice and an intentional violation of the laws and regulations;
- development of a system for holding executors of justice liable for violation of the provisions of the Federal Law on Enforcement Procedures;
- development of a system of arbitration and the procedural regulations for securing a claim (mechanisms for the control of validity and legality of a petitioner's claims; the criteria for a court's reasoned decision for securing a claim; adequate means of response by an alleged debtor to the measures taken to secure the claim, including where the allegations may be illegal or unreasonable);
- securing certainty of the issuer's and register holder's rights with respect to a shareholder register; the creation of effective mechanisms of control by an issuer responsible for keeping a register and for the register holder.

The absence of real competition in many sectors of the economy and the limited capabilities of the Federal Anti-monopoly Service to influence the activities of the largest Russian companies and State corporations, including in the M&A sector, complicate the situation in general. M&A transactions performed in offshore zones are often beyond the competence of the anti-monopoly control authorities. In the absence of qualitative improvements in the area of competition, the development of antimonopoly laws will remain oriented on the reduction of the level of antimonopoly control over M&A transactions and provision of state and municipal preferences.

Amongst other areas of regulation and development of the legal framework for the market which might reduce the scale of corporate raids whilst contributing to the further

development of civilized M&A mechanisms and assurance for the protection of shareholders' rights the following can be named:

- development of a set of measures to combat the involvement of register holders in corporate conflicts;
- creation of a unified state system of registration of title to uncertificated securities;
- systemic modification of the approach to decision-making on securing claims, and regulating the mechanism of taking preliminary securing measures;
- the development (introduction of the possibility of “automatic” or declarative transformation) of mechanisms for the transformation into limited liability companies of joint-stock companies which are in essence not ‘open’ ;
- legislative recognition of an obligation to determine the price of securities purchased on the basis of a voluntary offer at market value;
- measures for the further development of the Assessment Institute which would have the aim of reducing the risks of obtaining inadequate compensation when selling the shares of companies which are not traded on the stock exchange;
- introduction to the federal legislature of additional standards for corporate conduct in M&A transactions, the disclosure of information etc.;
- development of effective mechanisms of accountability for senior managers of joint-stock companies to make them liable for actions and decisions made in violation of the interests of the company and its shareholders;
- legal settlement of problems relating to the ineffective and illegal disposal of seized or forfeited property;
- development of a set of measures aimed at ensuring restricted access to information about a company’s activities and the confidentiality of such information, together with the creation of an effective system of supervision and responsibility for the disclosure of data obtained by public officers in the course of performance of their duties;
- further development of a process for the reorganisation of companies, including legislative recognition of the option to enter into agreements between reorganised entities and their creditors, to regulate claims for early termination of obligations, and to set and enforce mechanisms for securing the obligations of a reorganised entity to its creditors.

The elimination of the conflicts of interests of the State, acting both as a regulator and as a participant in the market, should become the basis for further strategic development of the

regulation of the M&A market in Russia (this, beyond a doubt, requires making political decisions). This conflict triggers reproduction of the general practice of “double standards” with respect to economic agents and reduces the effectiveness of the provision of governmental support to companies during a crisis, and it limits anti-monopoly control by those companies which do not have significant influence on the Russian economy.

The State (represented by certain government institutions) has not yet demonstrated its ability to manage large enterprises effectively and has not learned how to acquire and dispose of large assets publicly and openly under conditions of real competition. Often the desire to strengthen the State’s position contradicts both economic and common sense while informal relations determine the actions of the State in the market for corporate control.

Currently it is apparent that conditions are being created in the midterm to allow State-controlled (government-loyal) business and financial structures to obtain control over a range of large and medium-sized Russian companies and/or to redistribute their assets. Similar transactions will also be performed at a regional level. In the midterm, it is this kind of transaction aimed at change of ownership in favour of (pro-) governmental structures and companies affiliated with certain government representatives which will account for a considerable share of the Russian M&A market and define a new alignment of the major players in some of the most important Russian markets.

Amongst the important decisions aimed at overcoming the underdevelopment of market institutions and the elimination of the practice of creating “special rules” for “our” companies we may itemise the following: to change the legal form of all existing State-owned corporations and to render it impossible to further not only the creation of State corporations but also the development of a number of “special” legal provisions granting “special” rights to certain economic agents. An indicator of real commitment to changes of this sort could be, for example, the quality and intensity of realisation of a set of proposals contained in the project

“Development Concept for the Legislation Governing Legal Entities” developed in 2009 on the instruction of the RF President.

¹ O.V. Lazareva. Economic Factors in Changing the Borders of Russian Entities during the Transition Period. Materials from the Conference “Network Forms of Intercompany Cooperation: Strategic Challenges and Competitive Advantages of the New Organisations of the XXI century”, 10 March - 29 April 2004.

² A.V. Sizov. Macroeconomic and Institutional Factors in the State Regulation of Mergers and Acquisitions. Dissertation for the Candidate of Economic Sciences degree. Moscow: IEP, 2007.

³ For more information see: A. Molotnikov. Mergers and Acquisitions. Russian Experience. Moscow: Vershina, 2007. pp. 25-32.

⁴ For analysis of the M&A market dynamics the following available information resources were used and summarised: [www. ma-journal.ru](http://www.ma-journal.ru), [www. mergers.ru](http://www.mergers.ru), [www. finam.ru](http://www.finam.ru), [www. lenta.ru](http://www.lenta.ru) together with a range of other resources and data, assessment and materials published in periodicals and/or posted on the official websites of leading information agencies and periodicals for relevant years (Vedomosti, Kommersant, Mergers and Acquisitions, etc.).

⁵ Ref.: B. Heifetz. Foreign Expansion of Russian Business and Russia’s National Interests // Mergers and Acquisitions, 2007, № 9. p. 56.

⁶ Control implies performing transactions for the acquisition of 51% and more of the shares of a joint-stock company or a full acquisition of a company of any other legal form.

⁷ S.V. Gvardii, I.N. Chekun. Financing of Mergers and Acquisitions in Russia. Moscow: BINOM, 2006. pp. 22-23.

⁸ A.E. Abramov. Institutional Problems of the Development of the Russian Equity Market // Russian Economy in 2006. Trends and Outlooks. Moscow, IEP, 2007, p. 693.

⁹ Only public conflicts were taken into account for which the total cost of enterprises involved was 5 million dollars and in which the right for operative management was claimed by a company/property complex.

¹⁰ Money, 2009, № 3.

¹¹ Merges and Acquisitions, 2008, № 12.

¹² Ref.: Russian Economy in 2005. Trends and Outlooks. Moscow, IEP, 2006; Expert, 2006, № 3, p. 6.

¹³ According to estimates by A.E. Abramov (based on stock exchanges and the Russian Statistical Service), within the period from 2005 to the first half of 2008, the share of investment from the issues of corporate bonds, invested in fixed assets, ranged only from 0.4 to 2.2 %. Only slightly better was the use of funds by companies and banks involved in the IPO. In 2007, the most successful year in terms of IPO only 3.6 billion dollars, or 10.9%, were implemented for

the growth of real capital, out of 33 billion dollars, derived from the primary and secondary placements of shares.

¹⁴ The Russian stock market. The first half of 2008. NAUFOR, SKOLKOVO Moscow Management School, 2008. www.naufor.ru/tree.asp?n=7144.

¹⁵ Kommersant, December 12, 2008.

¹⁶ Money, № 6, February 16, 2009.

¹⁷ Ref.: WWW.Gazeta.Ru, 2008, December 26.

¹⁸ It is noteworthy that it is planned to spend 34 billion rubles to finance the purchase of shares in OAO VSMPO-Avisma by a public corporation. Ref.: Vedomosti, February 9-10, 2009, Kommersant, February 6, 2009.

¹⁹ Rb.ru: Business Network, March 17, 2009.

²⁰ Ref., for example: A.D. Radygin. Stability or stagnation? Long-term institutional issues of the development of the Russian Economy // Economic policy, 2007, № 1.

²¹ Kommersant, February 4, 2009; Money, 2009, № 5.

²² State Capitalism (Special issue). Smart Money, № 5.

²³ The possibility of the purchase, by one of the VEB structures, of 40% of Rostelecom shares which have been put on the balance sheet of the investment bank KIT Finance. The State corporation can also obtain 75% minus one share of the Svyazinvest shares owned by the State and 25% shares of the holding owned by the Joint-Stock Financial Corporation Sistema.

²⁴ Expert, 2009, № 11. pp. 26-27.

²⁵ Rb.ru: Business Network, January 13, 2009.