



C L I F F O R D
C H A N C E

Russia Update: Legal and
market developments in Russia
Winter / Spring Issue 2014

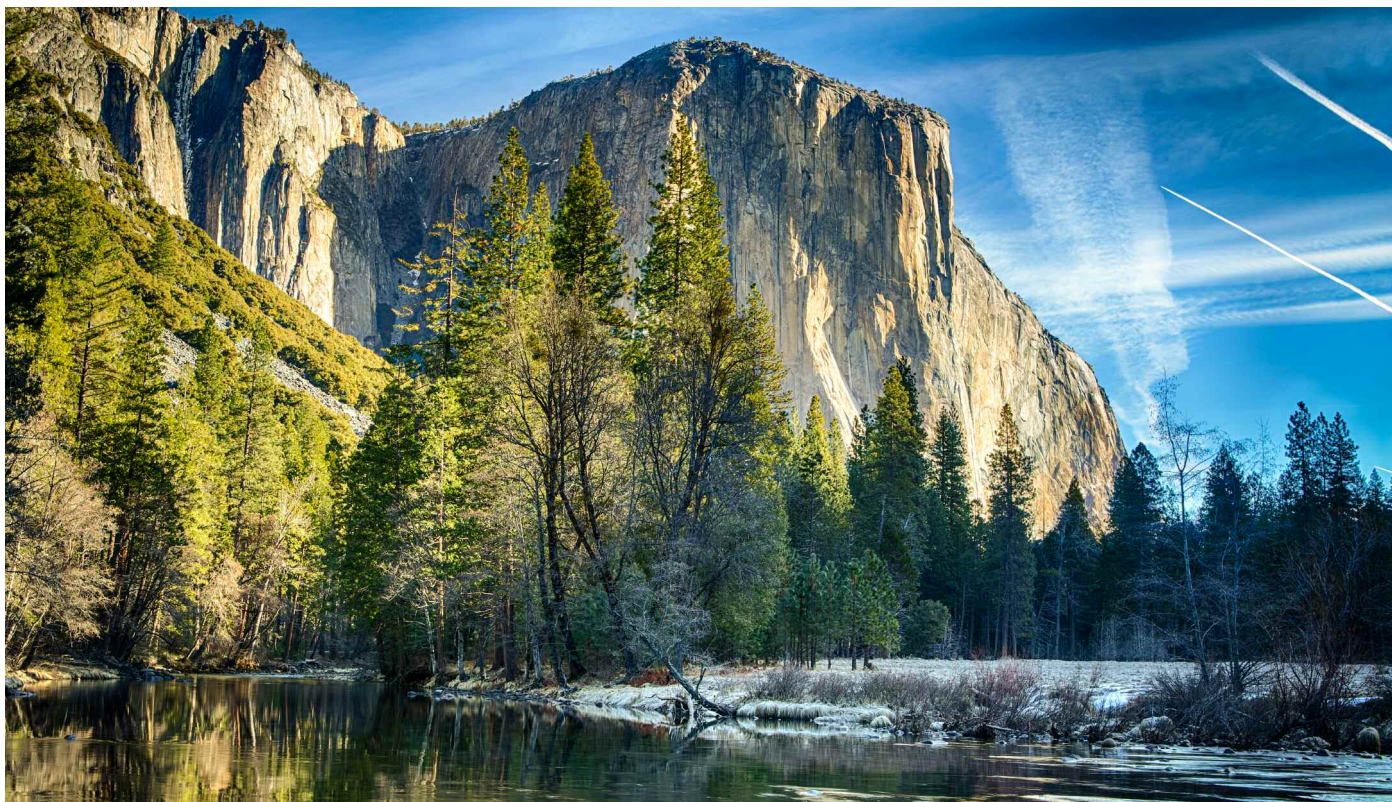
The **Russia Update** is a periodic publication of Clifford Chance Moscow which aims to summarise significant legal and market news relating to the Russian Federation which have taken place during the relevant period. You can access our key client briefings, alerters and other recent publications from the electronic version of this publication.

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Russia Update: Legal and market developments in Russia

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Macro Updates

Economic sanctions

Following the events in and relating to Crimea, the US and EU have imposed sanctions against various Russian individuals (including a number of people that do not hold governmental or other official positions) and one Russian bank. Standard & Poor's and Fitch have reviewed Russia's credit rating outlook from stable to negative followed by downgrades of a number of Russian banks and corporates. For a more detailed analysis, please refer to [our recent publication](#).

Financial mega-regulator goes live

Federal Service for Financial Markets has been merged into the Central Bank of Russia creating the financial mega-regulator. The former FSFM functions have been transferred to the

Financial Markets Service of the Central Bank, its new internal department, effective 1 September 2013. The new department is led by Sergey Shvetsov, who has held various positions at the Central Bank since 2001. The former FSFM was abolished effective 3 March 2014.

New head for Russian Accounts Chamber

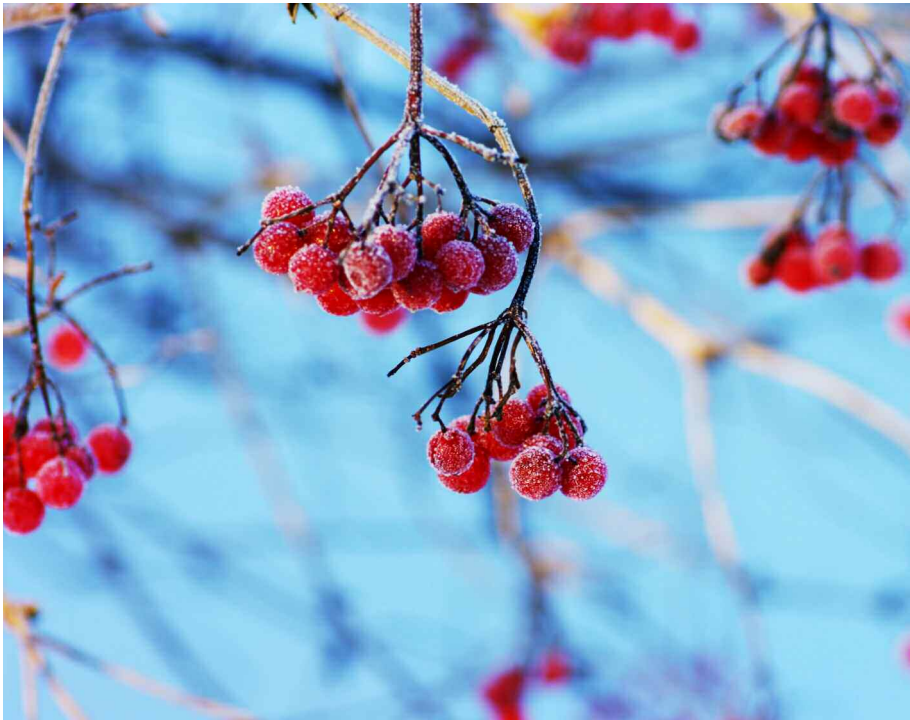
In September 2013, Tatyana Golikova, former minister for healthcare and social development of the Russian Federation and advisor to the President for countering corruption, replaced Sergey Stepashin as head of the Accounts Chamber. Mr Stepashin served in this position from 2000.

Proud host of the 2014 Winter Olympic and Paralympic Games

In February and March 2014, Russia hosted the 2014 Winter Olympic and Paralympic Games in its sub-tropical resort area of Sochi. With numerous infrastructure projects completed in time for the Games, these were the first ever Winter Olympic and Paralympic Games on Russian soil.

'Deoffshorisation' remains a hot topic

Governmental authorities remain focused on bringing Russian business on-shore. According to a recent statement of the President, this topic remains one of the key issues for the Russian economy. The proposed measures mentioned by Mr Putin include entering into treaties with the popular offshore zones compelling



disclosure of tax information and information about the end beneficiaries of offshore companies, improvement of Russian legislation regarding protection of owners' interests in their businesses, and improvement of investment climate. Transparency of Russian businesses' shareholding structures is another top priority, says the President.

In addition to general announcements made by the President, the Ministry of Finance has published the first draft law on the so called 'deoffshorisation' relating to controlled foreign corporations (CFCs). If adopted, the draft would tax profits of qualifying foreign subsidiaries of Russian companies and individuals.

Tokyo hosts VI Russia Japan investment forum

On 19 March 2014, Tokyo hosted the VI Russia Japan investment forum. Main topics on the agenda included determination of new areas for investment cooperation between the two countries. The event was jointly hosted by the Ministry of Economic Development of the

Russian Federation and the Japanese Ministry of Economy, Trade and Industry.

The 13 agreements and memoranda for future Russian–Japanese collaboration signed at the forum included a framework credit agreement between the Japan Bank for International Cooperation (JBIC) and VTB Bank and an agreement of intent regarding Russian grain exports through the Russian Far East ports between the Marubeni Corporation, the FESCO Transportation Group and the United Grain Company. The event's exhibition included presentations of agricultural investment opportunities in Russia.

Welcome the United Aerospace Corporation

In March 2014, open joint stock company United Aerospace Corporation was registered as a new legal entity. The corporation was established on the basis of a presidential decree signed in December 2013. In February, the Government approved the outline for the future consolidation of aerospace assets on the basis of the new corporation.

Legal and Regulatory Update

General

Update on the Civil Code

Further sets of amendments to the Russian Civil Code have been adopted as part of the ongoing overhaul of Russian civil law.

After former President Dmitry Medvedev suggested various amendments to the Russian Civil Code in July 2008, in November 2012 the Russian Parliament decided to split the massive sets of proposed amendments into nine sets which are to be passed as separate laws.

As discussed in our previous issues, the first set of amendments became effective on 1 March 2013 and mainly relate to certain basic principles of civil law, limits on the exercise of civil rights, the restriction on state registration of rights to certain types of property as well as recognition of the principle of compensation for losses incurred as a result of unlawful acts of state authorities. The second set of amendments became effective on 1 September 2013 and affect, *inter alia*, the general rules on transactions, the grounds on which a transaction may be challenged and the rules governing agency (including powers of attorney). The third set of amendments relate to security matters (including revision of rules on pledge and transfer of rights and obligations) and came into force on 1 October 2013. The fourth set of amendments related to international private law and conflict of laws norms and came into force on 1 November 2013. The fifth set of amendments is scheduled to come into force on 1 July 2014 and relates to the pledge and transfer of rights and obligations. A further set of amendments regarding intellectual property matters was signed into law in March 2014.

Merger of the two top judicial bodies in process

In November 2013, President Vladimir Putin proposed amendments to the Constitution of the Russian Federation aimed at merging the top judicial instances of commercial (arbitrazh) courts and courts of general jurisdiction. The draft law was adopted and entered into force in February 2014. A number of additional implementing laws were signed into law in March 2014 but the merger process is yet to be completed.

Update on insolvency databases

As at the date of this update, updates on bankruptcy proceedings of Russian legal entities continue to be published in the Saturday issues of the business daily Kommersant. In November 2013, the court ruled in its favour and confirmed Kommersant's status as the official source of insolvency publications for the time being.

Corporate

New rules for dividend payments and disclosure of proposed shareholder meetings

The Joint Stock Companies Law was amended effective 1 January 2014 to allow publication of statutory disclosure regarding convening of shareholder meetings through the internet. The amendments also tweaked the rules regarding determination of persons entitled to receive dividend payments. From now on, the record date for the list of payees is not set by reference to the date of the relevant decision and instead it is to be determined in the resolution on payment of dividends (taking into account the recommendations of the board of directors). Term for actual payment should be determined by reference to the date when payees are determined (rather than by reference to the date when the decision on dividend payments was made by the shareholder meeting as used to be the case).

Regulatory

More important news from the Central Bank

The Russian Central Bank remains active in improving and tightening regulation of banking operations and effecting more stringent control of the same. Over the past few months, it has introduced amendments to the system of mandatory ratios (among other things, splitting the capital adequacy ratio into three separate ratios) which became effective in February 2014. The new financial mega-regulator was also very active in the area of banking supervision which resulted in insolvency proceedings and withdrawal of banking licences for a number of credit institutions including Masterbank, a former top 100 private bank with a retail deposit base of over 30 billion roubles.

Further news include new rules for the regulator's audits of credit institutions which introduce a new form of special purpose audit targeting a particular area of the bank's operations (such as, for example, compliance with mandatory ratios or compliance with cash settlement rules). In addition, the Central Bank is working on determining the list of credit institutions of 'systemic significance' and higher requirements that it would apply to such banks. According to media reports of February 2014, the list of such banks has been agreed inside the regulator but it remains unclear when (and if at all) it would become publicly available. Another new regulation of the Central Bank (dated October 2013) has amended rules for obtaining prior regulatory clearance for purchase of shares in a Russian bank. The new regulation follows the law passed in July 2013. The main change relates to decrease of the threshold requiring approval of the Central Bank from 20% to 10% of the bank's charter capital. The new regulation also extends to the acquisition of stakes in persons holding over 10% of a credit institution's shares. Another amendment allows in certain cases to obtain approval of the

regulator after completion of the acquisition. Also, unsatisfactory business reputation of the acquirer has been added to the list of grounds on which the Central Bank can turn down an application for acquisition of a stake in a Russian bank.

'Anti piracy' law enters into force

The so called anti piracy law aimed at countering non-licensed distribution of movies and TV series became effective on 1 August 2013. The law allows Roskomnadzor, the watchdog in the area of telecoms, information technologies and mass communications, to order internet providers to block particular web-sites suspected of distribution of non-licensed film distribution. The Parliament is currently considering amendments to this bill that would expand its scope to cover photo and audio content.

Consumer lending bill signed into law

In December 2013, the long awaited consumer lending law was adopted by the Parliament and signed by the President. The new law establishes regulatory framework for granting and servicing loans to individuals, collection procedures and related matters and will enter into force on 1 July 2014. Its scope expressly excludes loans secured by mortgages.

One of the most important changes allows the Central Bank to determine the maximum interest under consumer loans, which shall not exceed market average interest for particular loan products by more than a third. To calculate the market average, the regulator will need to take into account respective rates of not less than 100 top lending banks and such calculations need to be renewed on a quarterly basis. The Central Bank is to start publishing such market average rates in November 2014.

This new rule and further amendments considered by the regulator are aimed at controlling the heated Russian consumer

lending market and ensuring stability in the sector.

FAS applies its powers extraterritorially

According to an official press release issued in February 2014, the Russian antitrust regulator (FAS) has rendered a decision on the basis of an investigation which involved protection of interests of a 100% subsidiary of MTS, the top 3 Russian mobile network operator, in a foreign jurisdiction, namely Uzbekistan.

According to FAS' resolution, two local mobile network operators violated Russian law by entering into an agreement that restricted competition and resulted in elimination of presence of the third market participant, MTS' subsidiary Uzdurobita, which adversely impacted the market and competition in the Russian Federation.

In this precedent, FAS has for the first time applied the extraterritorial powers granted to it as a result of 2012 amendments to the Russian antimonopoly legislation.

Finance

Changes to insolvency law

New amendments to the Insolvency Law were adopted in 2013. These relate mainly to the liability of the debtor and other persons in insolvency of the debtor.

New guidelines on challenging transactions in insolvency

The Supreme Arbitrazh Court has issued new guidelines on challenging transactions of the debtor in the event of insolvency. In particular, the guidelines:

- provided a list of transactions which can be challenged (including payments to creditors, set-off, direct debit, novation, enforcement of pledge);
- provided a clearer definition of 'suspicious transactions' and 'damage to the creditors' which are

some of the grounds for challenging transactions of an insolvent entity;

- clarified the timeline for challenging transactions; and
- explained the legal consequences of successfully challenged transactions.

Russian LMA developments

Upon an initiative of the Association of the Regional Banks of Russia, the market participants have joined forces to produce a draft of so called Russian LMA documentation. Participating lenders include Sberbank, VTB, Gazprombank, EBRD, BILLIONP (Russia) and Raiffeisen (Russia). The main challenges are that (a) a number of proposed changes to the Civil Code that would impact the lending activities are still pending; and (b) difference of concepts used by the LMA documentation and Russian law.

Capital Markets and Securities

Important amendments to securities laws

In the course of 2013, the Parliament, the Central Bank and certain other bodies have introduced a range of important amendments to the Russian securities regulation. The major ones include:

- adoption of a new version of the issuance standards, an important supplemental normative act setting out detailed procedures for registration and issuance of securities in Russia. The changes generally follow and further develop the recent amendments made to the Securities Market Law;
- a new law on bondholders meetings. Although inclusion of respective provisions into the terms of issuance documents will become mandatory for selected categories of mass securities only in 2016, the law establishes the general rules for set up and operation of bondholder meetings as well as their competence and the bondholders' right to appoint

a single representative (effectively, a trustee) to liaise with the issuer and other parties; and

- new listing rules adopted by the Moscow Exchange. Among other things, the new version of the listing rules decreases the number of listing sections from six to three, reviews qualification requirements for respective sections and introduces more stringent corporate governance rules for the issuers. The new rules will become effective in June 2014.

New framework for securitisation transactions

In December 2013, important amendments were introduced to the Securities Market Law with respect to securitisation and project finance regulation. In particular, the amendments introduced a concept of special purpose ('specialised') financial and project finance entities.

The purpose of activities of a special purpose financial entity include acquisition of receivables with respect to non-bank and bank loans and other obligations (including future obligations) as well as issue of bonds secured by pledge of such receivables. The law establishes general rules for set up, corporate governance and operation of such entities which are broadly similar to those established for so called mortgage agents, special purpose vehicles established under Russian law specifically for mortgage backed securitisations under existing legislation. With respect to management companies of special purpose financial entities, the law provides also that the Central Bank may establish additional qualification criteria for such entities.

Further amendments have extended the list of assets that can be used as collateral for Russian secured bonds. The list now includes receivables (including receivables from future obligations or future receivables from existing

receivables) which is expected to aid further development of securitisation structures in Russia.

New market segment on Moscow Exchange

The Moscow Exchange has set up a separate market segment for standardised OTC derivatives. Transactions in this new segment are settled through a central counterparty, the National Clearing Centre. Market participants may also benefit from favourable tax treatment of transactions in the new market.

Litigation and Dispute Resolution

New court for intellectual property rights

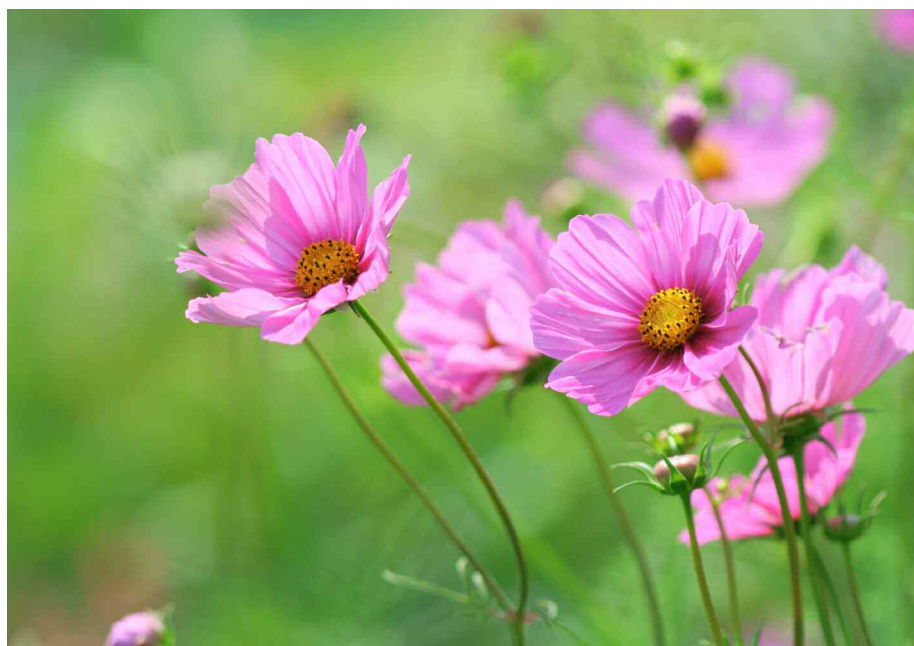
The new judicial body focusing on intellectual property disputes started operations effective 3 July 2013.

Supreme Arbitrazh Court supports the deoffshorisation wave

In July 2013, the Presidium of the Supreme Arbitrazh Court published a new decree which increases the burden of proof on offshore companies in order to demonstrate good faith. Although the wording of the decree leaves open a number of questions of both procedural and substantive law, one clear result of its adoption will be an increase in the number of legal disputes in which offshore companies will have to disclose information about their ultimate beneficial owners in order to have recourse to the courts.

Among other things, the decree also states that establishing an entity in an offshore jurisdiction and registering the rights to Russian real estate premises (which were the subject matter of the dispute) in its name "constitute use of a legal entity for the purposes of committing an abuse of rights".

For more details, please refer to our [client briefing](#).



Tax

'Deoffshorisation' remains a hot topic

As discussed in *Macro Update* above, the Ministry of Finance has published the first draft law on the so called 'deoffshorisation' relating to controlled foreign corporations (CFCs). If adopted, the draft would tax profits of qualifying foreign subsidiaries of Russian companies and individuals. Our tax team continues monitoring the developments and further client briefings on this matter are expected to follow.

New rules for taxation of certain financial transaction

On 28 December 2013, the President signed into law a wide range of amendments to the Russian Tax Code. Most of them introduce new tax benefits and clarify provisions regarding formation of the tax base (including booking of losses) with respect to particular types of financial transactions.

Please refer to our [client briefing](#) for further details.

Eurobond exemption becomes permanent

As discussed in our previous publications, the Government reserved the right to revisit the terms of the Eurobond exemption that was introduced in 2012 (please see our [Briefing note of June 2012](#)). The exemption was made available only for offerings made up to the end of 2013.

A new law dated 23 July 2013 made the exemption permanent and offerings made after 31 December 2013 will enjoy the same treatment as those made in 2013.

Further amendments to the Tax Code

The spring 2013 sessions of the State Duma resulted in quite a few changes to Russian tax legislation, most of which have already entered into force. The most notable of the changes include introduction of a mandatory out-of-court procedure for challenging all decisions of the tax authorities, extension of the period for administrative appeals to up to one month (previously it was 10 days), broadening the range of cases where parent/subsidiary companies may become liable for the tax obligations of

Russian Law Focus: Anti Corruption regulation

The Russian Law Focus column in this issue of our **Russia Update** focuses on Russian anti corruption regulation. Countering corruption remains one of the principal topics on Russia's legislative and law enforcement agenda.

In early 2012, Russia became party to the OECD Anti-Bribery Convention. Over 2011 – 2013 subsequent steps were made to bring the national legislation in line with the OECD standards as well as the most stringent national anti bribery laws in the world. We discuss below the most important features of Russian anti corruption legislation as well as the liability imposed for bribery related acts.

The main legislative act in this area is Federal Law "On Countering Corruption" No. 273-FZ dated 25 December 2008, as amended. It is supplemented by provisions regarding criminal and administrative offences relating to bribery which are imposed by the Administrative Offences Code and the Criminal Code as well as other acts which contain additional rules which (sometimes indirectly) apply to corruption.

A. Principal features of Russian anti bribery rules

- definition of a bribe includes money, securities, other property, services, benefits or other consideration provided in exchange for any acts or omissions to act in the interests of another person;
- bribery is a crime under Russian law irrespective of whether the aim of bribing a particular person was achieved or consideration from such person was received;
- it does not matter whether the purposes of the bribe was to induce a person to perform legal or illegal acts or omissions to act. On this basis, so called facilitation payments are also covered by restrictions imposed by Russian law;
- Russian anti bribery legislation covers bribes to foreign officials, including foreign courts and persons performing public functions (this term may be interpreted rather broadly based on the existing international practice) for a foreign jurisdiction, and officers of international organisations (introduced in 2011);
- Russian legislation covers giving and receiving bribes in both personal capacity as well as when acting through an intermediary;
- there are separate criminal offences for (i) acting as intermediary for the purposes of bribery and (ii) commercial bribery (i.e. bribery between commercial entities);
- since 2011, offences envisaged in the Administrative Offences Code (which apply to organisations) include not only an actual bribe but also an offer or promise of a bribe; and
- the maximum amount of a gift to state officials is limited to 3,000 roubles; payment for travel or entertainment expenses of state officials in any form is prohibited.

B. Offences and liability

By way of a general observation, under Russian law, criminal liability may only be imposed on individuals. Therefore, liability for legal entities with respect to corruption related activities is envisaged in the Administrative Offences Code.

Administrative liability: a person making, offering or promising a bribe in the interests of a legal entity may be subject to an administrative fine in the amount of up to a 100 multiple of the amount of the bribe in each case supplemented by confiscation. Depending on the size of the bribe, it falls within one of the categories envisaged by the Administrative Offences Code and the amount of the fine is determined on the following basis:

- for bribes in the amount up to 1 million roubles: up to three multiples of the bribe but not less than 1 million roubles;
- for bribes in the amount from 1 million roubles to 20 million roubles: up to 30 multiples of the bribe but not less than 20 million roubles;
- for bribes in the amount exceeding 20 million roubles: up to 100 multiples of the bribe but not less than 100 million roubles.

Criminal liability: bribery related criminal offences include giving and receiving a bribe as well acting as an intermediary on either side. Criminal liability (which, as mentioned above, applies to individuals but not to legal entities) may be imposed in the form of a combination of a criminal fine (in the amount up to a 100 multiple of the amount of the bribe or, with respect to intermediary activities, up to 50 million roubles), disqualification from holding particular positions or activities in a particular business area (up to three years) and imprisonment (for a term up to 15 years). Latest court practice suggests that over the past few years courts tend to impose fines (which were often not paid) less frequently and started using imprisonment sentences slightly more often.

Additional obligations of each Russian legal entity: with effect from 1 January 2013, each Russian legal entity is obliged to comply with certain requirements regarding countering corruption. These include appointment of an internal anti corruption officer or body, cooperation with state law enforcement agencies, introduction of respective internal policies, including code of ethics and business conduct, eliminating conflicts of interests and prohibition of any unofficial book keeping. To date, there is no established practice as to monitoring by the governmental authorities of compliance with these new requirements.

Last but not least, it is also worth noting that bribery related investigations have increasingly become cross-border as prosecutors in different jurisdictions develop information exchange and cooperation mechanisms. In addition, a number of national anti bribery laws have been given a cross border element as a result of which a company may be punished for bribes paid in Russia as part of a corruption investigation in its home jurisdiction (as has been the case with a few major international companies over the past few years).

Russian authorities of all levels regularly declare fighting corruption as one of their top priorities. The number of bribery related investigations and proceedings has notably increased over the past few years and is expected to grow further.

their respective subsidiaries/parents, and abolition of the requirement that the tax authorities be notified upon reorganization (e.g. merger) or liquidation of a company.

Furthermore, on 28 December 2013 the President signed into law a wide range of further amendments to the Russian Tax Code. Most of the amendments introduce new tax benefits and clarify provisions regarding formation of the tax base (including booking of losses) with respect to particular types of financial transactions. Please refer to our [client briefing](#) for more details

Restrictions on bank accounts and foreign securities held by PEPs

The new law restricts elected governmental, regional and municipal officials, civil servants, members of the military and other categories of 'politically exposed persons' ("**PEP**"), as well as their spouses and children under the age of 18, from opening and holding accounts in foreign banks and from owning or 'using' foreign financial instruments (including foreign securities). Investments in foreign

financial instruments made through asset management structures are also prohibited for the above categories of individuals.

The wording of the new law in terms of the instruments/structures covered may be interpreted quite broadly, which leaves room for arbitrary application.

The restrictions may require review of KYC / client DD procedures employed by foreign institutions as well as products and services offered to Russian PEPs and their family members.

Useful changes to leased aircraft treatment

The Customs Union (which consists of Russia, Belarus and Kazakhstan) has recently reintroduced exemptions from customs duties and VAT that were available for the most popular types of aircraft leased to Russian companies. For more details on this reintroduction as well as new exemptions and new court practice regarding repossession issues, please refer to our [client briefing](#).

Amendments to Property Tax Regime

On 2 November 2013, Federal Law No. 307-FZ On Amendment of Article 12 of Part One and Chapter 30 of Part Two of the Tax Code of the RF was passed, changing the corporate property tax regime for certain types of property.

Sector Update

Energy, Metals and Mining

Announced deals

Timchenko exits Gunvor

According to Gunvor's press release, in anticipation of potential economic sanctions resulting from Russia's activities in Crimea and in order to ensure uninterrupted operation of Gunvor Group activities, the shares of the company held by Mr. Gennady Timchenko were on 19 March 2014 sold to Mr. Torbjorn Törnqvist, the company's executive director. The deal occurred a day before economic sanctions were introduced in respect of Mr Timchenko. As a result of the deal, Mr. Törnqvist has become the majority owner of Gunvor, with an 87%

stake, and the remaining 13% of shares are held by Gunvor's senior management. Price or other details of the transaction have not been disclosed.

Rosneft to control 100% of Russian gas trading pioneer for USD3 billion

In July 2013, Rosneft, Russia's state-controlled oil magnate, took over Russian independent gas producer Itera for a reported USD3 billion.

According to an official statement, consolidation of Itera is expected to improve business efficiency and forms a stable platform for the consistent implementation of Rosneft's gas strategy aimed at increasing gas production to 100 bcm per annum and transforming Rosneft into the largest independent gas producer in the Russian Federation. The deal is also expected to allow Rosneft to accelerate the development of the Kynsko-Chaselsk group of oil and gas fields in northern Russia.

Rosneft partners with Japan's largest energy explorer

In May 2013, Rosneft signed a cooperation agreement with INPEX, Japan's largest energy explorer, to jointly explore oil and gas in the Sea of Okhotsk.

Rosneft to partner with Norway's Statoil in Arctic

Statoil of Norway and Rosneft are partnering in a venture after being awarded a 20% stake in Norway's continental shelf in the Barents Sea. RN Nordic Oil AS, an indirect subsidiary of Rosneft, will work with Statoil who will act as an operator to develop four blocks near the recently discovered Skrugard and Havis areas in the Casberg fields.

Evraz to sell Czech plant

According to chairman of the board of directors Alexander Abramov, Evraz Plc plans to complete the sale of Evraz Vitkovice Steel based in the Czech Republic in April – May 2014. He also mentioned that Evraz is in the process of selling its South African asset, Highveld.

Russian acquisition in RWE's oil & gas unit

L1 Energy, the investment vehicle set up by Mikhail Fridman and German Khan, agreed to buy RWE AG's Dea oil and gas unit, gaining assets in the U.K., Germany and the North Sea. RWE is Germany's largest power generator. The sale values Dea at about EUR 5.1 billion (USD7.1 billion), including debt. The deal is the first for LetterOne which was set up in 2013 to invest part of the USD14 billion the two

investors gained from selling a stake in the TNK-BP oil venture. Completion of the deal is subject to approval from RWE's supervisory board and regulators in several countries.

Russia's Renova invests USD 400 million in African solar energy

In May 2013, Avelar Energy South Africa, part of the Avelar Energy Group (established by Renova Group, Russia's leading private business group) signed its first long-term power purchase agreement (PPA) with the Dawn Group, a JSE listed company, mainly active in manufacturing, logistics and distribution. Avelar Energy, expanding its operations in the solar segment in Russia and other EMEA countries, will invest in and commission an 180kW solar rooftop system on the warehouses operated by Dawn Group in Johannesburg.

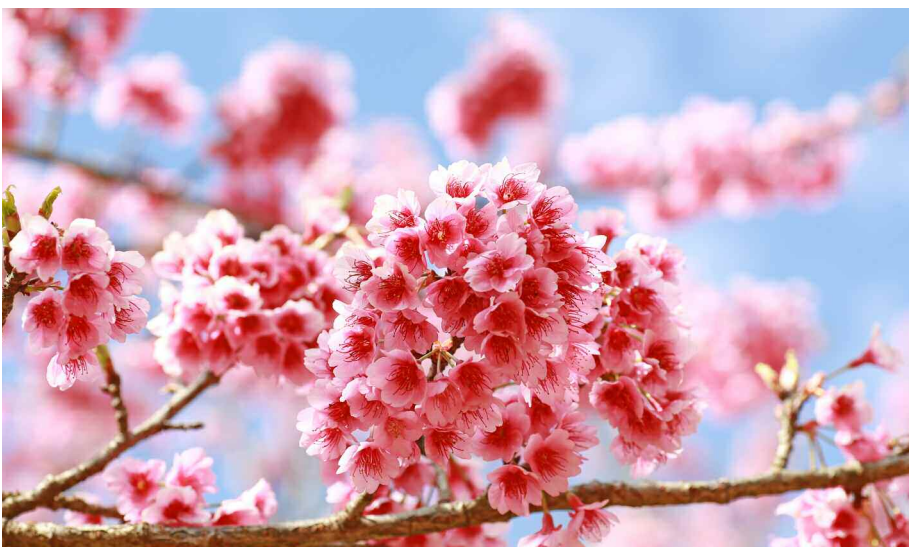
Uralkali occupies headlines: end of Belorussian trade venture and new shareholders

In July 2013, Uralkali, the world's largest supplier of potash, announced the end of its longstanding trade agreement with a Belarusian potash company (BCP) to cooperate on sales with Uralkali accusing its rival of undercutting their agreement to maintain prices by selling more potash on the side.

Just a few weeks after this, Belorussian authorities arrested Uralkali's CEO Mr Vladislav Baumgartner on charges of abusing his powers. Investigators also publicly promised to look into the activities of Suleiman Kerimov, one of its main shareholders.

Within the next few months, Mr Mikhail Prokhorov's Onexim Group and Russian fertiliser producer Uralchem acquired stakes in Uralkali exceeding 20% each.

Uralkali's CEO was extradited back to Russia a few days after Mr Kerimov agreed to sell his stake in Uralkali.



In February 2014, Uralkali inked an agreement for supply of the soil nutrient to China for 24% less than it did before pulling out of a joint supply deal with Belarus. Uralkali will sell 700,000 metric tons of potash to Chinese customers at USD305 a ton under a contract for the first half of 2014.

Alrosa completes IPO

Alrosa, the Russian diamond monopoly which accounts for 25% of global diamond production by value, raised USD1.3 billion in a public offering of its shares on the Moscow Exchange completed in October 2013. The Russian government sold a 16% stake at 35 roubles per share which was close to the bottom of the planned price range. Based on this valuation, total capitalisation of Alrosa amounted to 258 billion roubles. According to official statements of Russia's Federal Property Management Agency, which is running the privatisation programme that the offering was part of, about four-fifths of demand for the offering came from outside Russia.

Nordgold looks to French tropics

In September 2013, Russian gold miner Nordgold signed a letter of intent to buy a 50.01% interest in exploration licences in French Guiana from Columbus Gold Corp. Under the agreement, Nord Gold will pay Columbus Gold USD4.2 million in cash for the Paul Isnard project no later than May 2014. The Paul Isnard project contains inferred gold resources of 4.15 million ounces in the Montagne d'Or deposit.

Rosneft acquiring stake in Pirelli

In March 2014, Rosneft agreed a deal giving it control over a 13% indirect stake in Pirelli SpA, making the Russian group the single biggest shareholder in the world's fifth-largest tyre maker.

Sector news

Expected liberalisation of liquefied natural gas operations

Gazprom's monopoly on LNG exports has been abolished effective 1 December

2013. The new list of qualifying exporters has been extended to include other companies with government owned stakes of not less than 50% which extract gas on the continental shelf, within territorial or inner seawaters (and their subsidiaries) as well as entities operating subsoil plots of federal importance (as defined under Russian law) whose licences contemplated construction of an LNG plant as at 1 January 2013. Rosneft, which may become Gazprom's key competitor in this area, announced its plans to enter the LNG segment earlier in 2013.

Rosneft and Gazprom awarded Arctic Shelf permits

In summer 2013, Rosneft and Gazprom were granted extraction licenses for around 30 areas accounting for about 80% of Russia's Arctic shelf hydrocarbons. In December 2013, Gazprom announced the launch of oil extraction from the Prirazlomnoye field, the first Russian project for developing the Arctic shelf. The company describes this as commencement of its new project aimed at creating a large hydrocarbon production center in the region.

On the back of these developments, in February 2014 the Russian Parliament put forward an initiative to create a national integrator agency to monitor the exploration and development of Arctic shelf deposits. A large-scale socio-economic development program for Russia's Arctic territories has been launched this year. Approved in 2013, it stipulates the modernisation of existing ports along the Northern Sea Route and the creation of a uniform transportation, communications and power supply network.

Russia ranked world leader in shale oil reserves

Russian shale oil reserves are estimated at 75 billion barrels, which puts the country on top of the global standings, followed by the US and China. According to a report of the US Energy Information Administration (EIA) issued in June 2013,

the estimated American shale gas resources equal 58 billion barrels, with third-place China having 32 billion barrels.

Gazprom forced to end 40 year-old gas pricing regime

In July 2013, in a landmark case against the Russian gas monopoly German energy company RWE won the rights to amend its contracts with Gazprom which has refused to budge on pricing for 40 years.

Moscow exchange launches first precious metals trading

The stock exchange has started trading gold and silver and announced plans to start platinum and palladium trading in the course of 2014. Trading physical metals is expected to boost liquidity in the market and attract more participants.

Financial Services

Announced Deals

Tinkoff Credit Systems hits London Stock Exchange

TCS Group Holding, 100% shareholder of Tinkoff Credit Systems, a leading Russian credit card bank, raised over USD 1 billion in a GDRs placement on the London Stock Exchange, making it the first IPO of a Russian business in London since November 2012. The bank was founded by Russian entrepreneur Oleg Tinkov and operates on a branchless model servicing its customers online and through other means of remote communication.

NOMOS completes SPO in Moscow

In October 2013, NOMOS bank completed a secondary public offering of its shares raising slightly more than 19 billion roubles. The offering involved 21.8 million of the bank's shares for a price of 875 roubles per share comprising 19.6% of its share capital. The offering was done via the Moscow Exchange. Media report that the books were visibly oversubscribed.



Otkritie: new shareholder and acquisition of Petrocommerce bank

In October 2013, Otkritie Financial Corporation announced its acquisition of Petrocommerce bank from IFD Capital group. The latter is in turn expected to receive 19.9% in Otkritie as part of an additional shares issue scheduled for 2014. The project completion remains subject to regulatory approvals.

VTB to Sell Rosbank Stake to France's Societe Generale

In December 2013 VTB disposed of its 9.9% stake in Rosbank by selling it to the latter's main shareholder, Societe Generale. In exchange for purchase of Rosbank shares Societe Generale will sell to VTB some of its Russian assets, including high liquidity shares, loan receivables and a few office real estate assets.

Sector news

Top 100 brands: Sberbank gains prestige

Sberbank, Russia's largest bank, jumped four places from last year to reach spot 70, closely followed by telecom major MTS, which secured spot 82 in brand

value rankings. The rankings and the figures are compiled by American market research company Millward Brown Optimor (MBO).

China, Russia and the US set up a rival to big three ratings firms

A new credit agency, the Universal Credit Rating Group, has been set up to rival the existing agencies Moody's, S&P and Fitch. The new institution will be based in Hong Kong.

Strauss-Kahn rises: Ex-IMF head comes to work for Russian bank

The former head of the IMF has re-emerged in the supervisory board of Russian Regional Development Bank, the banking subsidiary of Russia's state-oil company Rosneft.

Transport & Logistics

Sector news

New carriages supplier for Moscow metro

Based on the results of a tender completed in February 2014, in the next 30 years part of the new carriages for the Moscow tube will be supplied by

Metrovagonmash and Transholdleasing, each partially owned by Transmashholding. The contract value is 144 billion roubles.

New CEO for Avtovaz

A November meeting of the board of directors of Avtovaz, Russia's historical car producer, appointed Bu Andersson new president of the company. The nomination was made by chairman of the board of directors Karlos Gon and CEO of the state corporation Russian Technologies Sergey Chemezov. After years of work for Saab and General Motors, Mr Andersson joined another Russian carmaker, GAZ, in 2009. In 2011 he was named best CEO in European emerging markets auto industry.

In March 2014, Mr Andersson also became chairman of the board of directors of Avtovaz's joint venture with GM, GM-Autovaz.

Aeroflot may create low-cost airline by 2014

In October 2013, Aeroflot, Russia's largest airline, announced set up of a wholly owned subsidiary that would tap into the budget airline market. The new company, called Dobroljot, is expected to require USD 100 million investments and the first flights are scheduled for 2014. The low-cost airline filed for receipt of necessary regulatory approvals in late December 2013.

In February 2014, a company spokesperson reported that the first five destinations have been selected and will include such busy Russian hubs as St Petersburg, Samara, Ufa, Perm and Ekaterinburg.

Aeroflot signs on as Man United's first Russian sponsor

Aeroflot, Russia's largest airline, has become Manchester United's official airline carrier for the next five years, marking the club's first sponsorship with a Russian company.

Russian Railways applies to take over Greek transportation firms

The Russian Railways company, RZhD, has applied to buy stakes in the Greek national railway company TrainOSE, the repairing company Rosco and Thessaloniki port. In March 2014 RZhD confirmed its intentions and also expressed an interest in acquiring the Greek port Piraeus.

Eight new warehouses for Russian Post

The official development strategy of the Russian Post for the period until 2018 contemplates construction of 6 to 8 major logistics centres across Russia.

TM&T

Announced Deals

Gazprom media consolidating Profmedia

Gazprommedia has acquired 100% of Profmedia, a media holding previously owned by Vladimir Potanin's Interros. With regulatory approvals were received in January 2014, the deal was completed within the next month. Price or other terms of the deal have not been disclosed.

Yandex buys Israeli startup

Russian search giant Yandex announced on 19 March that, it had completed acquisition of a Tel Aviv-based startup KitLocate. KitLocate is said to possess a low power consuming mobile geolocation technology for smartphones. Terms of the deal have not been disclosed. Yandex is also opening its first research and development facility in Israel.

New developments in the VKontakte conflict

Pavel Durov, founder and CEO of the top Russian social network VKontakte, sold his remaining 12% stake in the company to CEO of Megafon Ivan Tavrin in January 2014. Weeks after this, Mail.Ru Group co-owned by Alisher Usmanov purchased the same stake from Mr Tavrin consolidating 52% stake in the company.

Sector News

Skype allowed to operate in Russia without a license

In July 2013, Russia's telecom watchdog gave Skype the green light to continue operating in Russia without a license, after rejecting an appeal from mobile operator MTS.

Consumer Goods and Retail

Announced Deals

Lenta launches IPO

On 28 February, Russian hypermarket chain Lenta announced the price for its initial public offering at the London Stock Exchange.

The total size of the offering is USD 952 million, or USD 1.1 billion if its over-allotment option is exercised in full (amounting in a total market value of USD 4.3 billion). The company set the price of USD 10 per global depositary receipt (GDR), which is closer to the lower end of the range of USD 9.5- USD 11.5 that was announced earlier. One share is represented by five GDRs. Existing shareholders of Lenta, including the U.S.

private equity firm TPG, VTB and EBRD, will sell some of their shares in the offering.

In addition, the GDRs started trading on Moscow Exchange on 6 March 2014.

Further retail Russian IPOs delayed due to unfavourable market conditions

In February 2014, Russian children's goods retailer Detsky mir, owned by a major cross-industry Russian conglomerate Sistema, disclosed that it has applied to the Central Bank (which acquired powers of the securities regulator after it became a mega regulator) for permission to list stock outside Russia which would allow it to list depository receipts on the London Stock Exchange. Already in March the company announced, however, that the listing would be delayed due to unfavourable market conditions.

Similarly, Metro Cash & Carry announced a delay of offering in respect of its Russian business for an indefinite term.

Sector News

7-Eleven considering Russian market

The Moscow authorities are in talks with the US based 7-Eleven about a contemplated project to open about 200 local small to medium sized food retail stores. One of the suggested structures is to use franchising arrangements to implement this project. Russian companies may be invited to join as co-partners.

Forthcoming Events

- St Petersburg International Economic Forum (22–24 May 2014, St Petersburg, Russia)
- Russian Retail Banking Forum - Adam Smith Conferences (27 - 29 May 2014, Marriott Grand Hotel, Moscow, Russia)
- Russian & CIS Coal Summit - Adam Smith Conferences (May 2014, Moscow, Russia)
- CIS Oil & Gas Summit - The Energy Exchange (22 - 24 April 2014, Paris, France)
- Russian Arctic Oil and Gas Adam Smith Conferences (14 - 16 April 2014, Marriott Grand Hotel, Moscow, Russia)
- Wealth Management and Private Banking: Russia and CIS - Adam Smith Conferences (April 2014, tbc, Moscow, Russia)
- CIS Private Equity and Venture Capital - C5 Conferences (9 - 10 April 2014, Moscow, Russia)
- Wings of Russia International Aviation Forum - ATO Events (7 April 2014, Moscow, Russia)

CC Moscow Update: News and People

CC Construction Day 2014

On 20 March 2014, Clifford Chance hosted an exclusive Construction Day. A team of leading experts from our Real Estate and Finance practices joined forces to arrange panel discussions and

market updates on key factors for choice of procurement strategy for construction projects, key risks and legal issues in EPC-contracts (including Russia specific matters), tax split in construction projects and project finance matters. The latter was presented by one of client's teams and focused on the bankers' take on project finance.

Chambers Global 2014 confirms CC Moscow's leading status

Clifford Chance has been ranked as the number one law firm in the 2014 rankings of Chambers Global Top 30 which were published in March 2014. The legal directory referred to the geographic reach, depth of expertise and client service of our firm. In terms of Russia specific ratings, our team was ranked in band 1 across a number of practice areas including Banking & Finance, Dispute Resolution and Restructuring /Insolvency with a number of partners and counsel getting individual references and praise.

Marc Bartholomy recognised as the most influential lawyer by CRE magazine

Marc Bartholomy, Head of Real Estate Practice at CC Moscow, has headed the Legal Services section of the Top 100 Market Makers 2013 rating. The rating is issued by CRE magazine and represents real estate market leaders in development, investment, property management, leasing as well as legal and financial advisory.

Over 2012 –2013, Marc acted as lead partner on a number of milestone real estate projects in Russia, including the acquisition of Metropolis shopping centre in Moscow (*the largest single commercial property transaction undertaken in the Russian corporate history*) and the Galeria shopping Centre in St. Petersburg (*The Best Investment Transaction of the Year at CRE Awards 2012*) by MSREF VII Global-GP, L.P., the acquisition of business centres Ducat Place III, Silver City and White Square (*The Deal of the Year at CRE Awards 2013*) by O1 Properties and advised AMMA Group on the development of Aviapark shopping centre on Khodynskoye Pole.

New Energy practice counsel

Effective July 2013, Louis Skyner has joined our team as a counsel in the Moscow office. Skyner's practice includes more than ten years of work in the oil & gas sector – an area of strength for Clifford Chance Moscow that will be further bolstered by Skyner's presence.

Before joining Clifford Chance, Skyner worked as leading legal counsel at Statoil responsible for upstream projects with its Russian partners. Before that he was part of the shipping & offshore practice at the law firm Wikborg Rein and senior counsel at Petroleum Geo-Services. He, therefore, has experience in advising both from the 'contractor' and the 'client' perspectives on different stages of the development of oil & gas projects.

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