



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

Russia Update: Legal and
market developments in Russia
Summer / Autumn Issue 2012



The **Russia Update** is a new publication of Clifford Chance Moscow launched in spring 2012, and aims to summarise significant legal and market news relating to the Russian Federation which has taken place during the relevant period. You can access our key client briefings, alerters and other recent publications from this publication.

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Macro Updates

Russia joins WTO

Russia has become a full World Trade Organisation member with effect from 22 August, a month after President Vladimir Putin signed the bill approving accession to the WTO. Please refer to 'Legal and Regulatory Update – General' below for further details.

Russian privatisation plans shift up a gear

The Russian Government has agreed to speed up and broaden its privatisation programme, with such giants as Sberbank, VTB and energy major Rosneft being on the list. The plans are scheduled for completion by 2016. For more on the Sberbank SPO, please refer to 'Sector Update – Financial Services' below.

St. Petersburg International Economic Forum

The 2012 St. Petersburg International Economic Forum proved to be more fruitful in terms of deals announced contracts than the previous year's forum. A total of 84 agreements were signed as part of SPIEF 2012 with nine contracts having a combined value of more than RUB 360 billion, including four loan agreements for RUB 164.4 billion. With a total of 5,347 participants, the three day forum was attended by 290 representatives of official delegations from 77 countries.

Russia hosts APEC Summit

On 2-9 September the 24th Asia-Pacific Economic Cooperation (APEC) Summit

was held in the city of Vladivostok in Russia's Far East region. This year the summit was focused on trade and investment liberalisation, regional economic integration, strengthening food security and establishing reliable supply chains. The Russian Government, in addition to strengthening the ties with APR, also hopes that the summit will attract investors to foster the development of infrastructure in Russia's Far East region.

Russia and China cement business alliance

Russian President Vladimir Putin and his Chinese counterpart Hu Jintao signed an investment, energy, innovation and technology cooperation agreement as the



two leaders met during Putin's three-day visit to China in June 2012.

Foreign direct investment in Russia grows by 22%

Russia now ranks 7th in the world for foreign direct investment as investment grew by 22%, reaching USD 53 billion in 2011, according to an annual report published by the United Nations Conference on Trade and Development.

Moscow doubles in size

The Russian capital's area grew from 1,070 square kilometers (410 sq miles) to 2,560 sq km (970 sq miles) with effect from 1 July 2012. In terms of land footprint, Moscow now comes close to Paris. The changes to the city limits are intended to facilitate relocation of the country's Parliament, Supreme Court to new greenfield sites - all aimed at helping

to turn the metropolis into an international financial hub.

CBR raises refinancing rate

In September 2012, the Central Bank of Russia reviewed the refinancing rate for the first time since December 2011 and increased it from 8.0 to 8.25 percent.

Legal and Regulatory Update

General

Update on Civil Code

As reported in the inaugural issue of **Russia Update**, the Russian Parliament is currently considering extensive amendments to the Russian Civil Code. The draft law passed the first hearing in the State Duma on 27 April. After a few postponements, the second hearing is

currently scheduled for 23 November this year and a material number of changes have been made compared to the original draft. With numerous round tables involving business and legal practitioners held since the first hearing, the Duma's representatives have signalled that a material part of comments received from the business community has been accepted.

WTO accession

On 22 August 2012, Russia's accession to the World Trade Organisation (WTO) became effective. Please see our client briefing '*Russia accedes to the WTO: problems and opportunities*' for a more detailed analysis of its implications in the fields of import and export regulations, the financial sector (including banking, insurance and securities activities), mining, pharmaceuticals and more.

Insolvency databases

Since July 2008, the business daily *Kommersant* has served as the official printed source for updates on bankruptcy proceedings of Russian legal entities. *Kommersant's* contract expired on 2 August 2012 and a new official printed source is yet to be appointed. In the interim, *Kommersant* will continue to serve as such an official source until 1 January 2013.

Corporate

Holding shareholders' meetings – a few procedural changes

Rules for convening and holding general shareholders' meetings of Russian joint stock companies are established by the Federal Law on Joint Stock Companies and a decree of the Federal Service for Securities Markets ("**FSFM**"). The latter was amended earlier this year by FSFM's resolution of 12 February 2012 but the amendments were only officially published on 27 August. The key changes are as follows:

- **Venue:** meetings should be held in the same city/town as the company's registered address unless a different location is provided in the company's charter. Prior to these changes, alternative locations could be determined in accordance with the charter as well as other internal documents of the company.
- **Quorum:** the rules now provide a clear list of cases in which votes granted by shares shall not be counted for the purposes of determining the quorum of a meeting. In addition, the rules now expressly state that only placed and outstanding voting shares shall be counted for these purposes.
- **Voting through depositaries:** the amendments have introduced new rules for voting by depositaries holding shares as part of GDR issues. The depositary must notify the vote count committee of the total number of shares in respect of which it has obtained voting instructions from respective GDR holders. To determine quorum and calculate votes, only the number provided at the time of the depositary's registration for the shareholders' meeting shall be used. However, the wording of the new rules is not entirely clear about what happens if a depositary casts a number of votes that is different from that provided at the time of registration i.e., whether only the unregistered part or all of the votes cast by the depositary will be excluded from voting.
- **Signed bulletins:** if a voting bulletin does not bear the signature of an authorised person it will not be counted for calculations of quorum or voting results.

The changes will become effective six months from the date of publication, i.e. at the end of February 2013.

Real Estate

Road map to improve construction investment climate finally approved

On 16 August, the Russian Government approved a road map for making substantial improvements to construction regulations. The relevant amendments are expected to be adopted in 2012 – 2014 and include the following key changes:

- notification to replace construction permits;
- expert review of design documentation to become optional for most types of construction; and
- reduction of consents required to launch a completed facility.

As a result of this reform, by 2018 the total number of permits is expected to shrink from 51 to 11 per construction site and the average amount of time spent on obtaining them should drop from the current 423 to 56 days, according to the road map. Further anticipated changes to the sector regulation include simplified access to electricity networks and streamlined procedures for registration of property rights.

All of these changes are part of the Government's initiative to improve the business climate in Russia suggested by Vladimir Putin in February 2012.

Regulatory

Further changes to the CBR's settlement system

In furtherance of the Federal Law on the National Settlements System which has been effective since September 2011, the Central Bank of Russia (Bank of Russia) has passed two supporting regulations during the summer months which have replaced earlier regulation of this area.

Regulation No. 383-П governs non-cash settlements effected by the Central Bank and credit institutions in Russia. The regulation establishes detailed procedures for the following types of settlements:

payment instructions, letters of credit, collection orders, cheques, debiting on the basis of the recipient's instruction (direct debit) and electronic funds. In addition, Regulation 383-П provides detailed rules for debit operations made on the basis of the payor's advance acceptance and the instruction from the payee.

Regulation No. 384-П addresses the settlement system operated by the Central Bank and used by Russian banks. The regulation sets out detailed procedures and types of settlements and describes the mechanics of operation of the five settlement batches performed by the Central Bank during each business day (*rejsy*).

Assets covering insurance provisioning and insurers' own capital - new regulations from MinFin

The Russian Ministry of Finance has adopted a new set of requirements in relation to assets eligible to cover (i) an insurer's own capital and (ii) insurance provisioning reserves. The regulations came into force on 30 September 2012 replacing similar rules enacted in 2005.

In both cases, the new regulations provide more detailed criteria for some of the eligible asset classes such as, for example, securities (the quality of which will now be assessed on the basis of the issuers' credit ratings). Among other changes, the debt funds ratio (so called 101H) has been increased from 15% to 60% which should allow insurers to attract more debt funding. Also, under the new rules for both insurance reserves and insurer's own capital, any real estate properties should be accounted for at their balance sheet value and the balance sheet value may not exceed the market value.

Finance

On 12 July 2012, the Plenum of the Supreme Arbitrazh Court ("**SAC**") adopted a decree which clarifies a number of issues associated with the application of

certain provisions of Russian law in relation to suretyships. The decree is aimed at protecting creditors from bad faith sureties (by limiting the grounds for challenging the validity and effectiveness of suretyships) and expanding the use of Russian law governed suretyships as a form of credit support for different types of obligations. Among the notable clarifications are the following:

- amendments or changes to the underlying obligation that is supported by a suretyship without consent of the surety (for example, an increase in the amount of the underlying obligation) does not terminate the suretyship and the surety remains liable in the amount of the original obligation, unless the amendment or change makes the secured obligation incapable of being performed by the debtor;
- suretyships may be granted in respect of overdue obligations, future obligations and non-monetary obligations (and in the latter case a surety will be obliged to pay the amount of any losses or penalties caused by the debtor's failure to perform);
- confirmation that suretyships may be granted in respect of non-contractual obligations (for example, restitutional claims arising in the case of the invalidity of the underlying obligations); and
- various clarifications with respect to the treatment of suretyships in the case of bankruptcy of the surety.

Capital Markets and Securities

Central Depository: recent developments

- In July 2012, National Settlement Depository ("NSD") submitted its application to become the Central Depository and on 6 November FSFM

announced NSD's appointment as the Central Depository

- On 1 July 2012, provisions of the Central Depository Law relating to foreign nominee holder accounts and foreign authorised holder accounts became effective. However, the following should be noted in respect of when these accounts may become operational and when the securities may be credited to such accounts:
 - a. *Foreign nominee holder accounts*: securities of publicly traded companies and mutual investment funds can only be credited to such accounts after the Central Depository is in place and has set up its nominee accounts in the relevant registers. As for other securities, the legislation permits their crediting to foreign nominee holder accounts from 1 January 2013.
 - b. *Foreign authorised holder accounts*: there are no specific timing restrictions for crediting securities to such accounts, which in theory means that they can already be operational.

As regards 'accounts for depositary programmes', they can only be opened with Russian custodians that have nominee accounts with the Central Depository, which means that their opening is conditional on the creation of the Central Depository. The securities held by depositary banks under existing programmes must be credited to accounts for depositary programmes within one year after the creation of the Central Depository but in any event not earlier than 1 January 2013.

- FSFM has adopted a list of eligible foreign nominee holders. Although this list includes, among others, Euroclear, Clearstream and DTC, the draft regulation restricts their

operations with Russian securities (sovereign and municipal bonds) until 1 July 2014.

Repository: coming soon

- One of the requirements for close-out netting arrangements to be recognised and enforced in the context of OTC derivative transactions is that information about the respective master agreement and transactions must be recorded by a Repository. The procedure for reporting such transactions was approved by FSFM in December 2011 and has entered into force on 26 October.
- A Repository must be a stock exchange, a clearing organisation or a self regulated organisation in the Russian securities market. It must notify FSFM of its decision to act as Repository, and the list of Repositories will be available on FSFM's official website. National Settlement Depository has started operating as a Repository, although only in a test mode so far.
- A Repository should be notified, and keep record, of any individual repo transaction, derivative transaction and any other FX or securities transaction under a master agreement. Failure to report these transactions to a Repository should not affect the validity of these transactions but will make them ineligible for calculation of the net amount in the event of the insolvency of the Russian counterparty.

Securitisation: contradiction between two supreme courts

In June 2012, the High Court (which is the highest instance court of general jurisdiction dealing with cases involving individuals; *Verkhovny sud*) ruled that the Consumer Protection Law did not contemplate assignment of consumer

loans by banks to entities not having banking licences, unless (i) otherwise provided by law or (ii) agreed between the parties at the time of their entry into the relevant loan agreements.

The position of the High Court directly contradicts the decisions of the SAC (which is the highest instance commercial court in Russia). Since 2007, the SAC has consistently ruled in favour of assignment of loans to non-banking institutions.

Although the ruling of the High Court was primarily directed at collection agencies who often use “unconventional” methods when dealing with individuals, it may also affect special purpose vehicles used in the context of securitisation transactions. While Russian SPVs created in accordance with the Mortgage Backed Securities Law are likely to be exempt because the Mortgage Backed Securities Law expressly permits assignment of loans to these SPVs (limb (i) in the first paragraph above), parties to cross-border transactions will have to rely on the originators’ standard documentation which in many cases will need to be amended in preparation for a securitisation transaction.

Litigation and Dispute Resolution

Russian courts rule that substantial legal costs incurred in connection with a foreign litigation are recoverable

In its recent ruling (No. VAS-6580/12 of 26 July 2012) the SAC found that a number of judgments and orders of English courts were subject to recognition and enforcement, including an order for recovery of substantial legal costs incurred in the course of English court proceedings.

Recognition and enforcement of English judicial acts in Russia per se is nothing new. For example, previously a judgment of the English High Court of Justice against OJSC Yukos (case No. A40-53839/05-8-388), was recognised and



enforced by the Russian courts - that was the first English judgment ever recognised in Russia.

That said, this ruling represents the first time the Russian courts have upheld the awarding of more than RUB 23 million (approximately USD 700,000 dollars) in legal costs incurred by a claimant in English courts. Russian courts found that the respondents, by accepting the jurisdiction of the English courts, also accepted the English procedural rules and rules on calculation of legal costs recoverable from the losing party.

Validity of optional jurisdictional clauses

On 19 June 2012, the Presidium of the SAC issued a decree in case No. VAS-1831/12 in which it examined the validity of an optional jurisdictional clause. The full text of the decree setting out the rationale for the decision was published on 1 September 2012.

The Presidium of the SAC found that a dispute resolution clause under which all disputes between the parties to the contract are referred to international arbitration and one of the parties is granted the option to refer disputes to the competent state courts (“**Unilateral Option Clause**”) violates the principle that the parties to a dispute have equal procedural rights.

Although the decree is not entirely clear as to the effect of such clauses, interpretation of the decree suggests that the Presidium of the SAC ruled that where the parties have entered into a Unilateral Option Clause either of them (not just one) as a claimant has the right to choose between international arbitration and state courts. Effectively, the Presidium of the SAC has converted the “unilateral option” in such clauses to a “mutual option”.

For more details, please see our briefing *'The RF Supreme Arbitrazh Court rules on the validity of dispute resolution clauses with a unilateral option'*.

Tax

Taxation of Eurobonds

Following the attempt by the Russian Ministry of Finance to look through offshore issuance vehicles when determining beneficial owners of interest payable under Eurobond structures and a strong pushback from the market community, the Russian Parliament has adopted a law that exempts interest payable in connection with Eurobond issues from Russian withholding tax if the following requirements are met: (a) the bonds are "quoted bonds"; (b) the issuance vehicle is located in a jurisdiction that has a double tax treaty with Russia (to be confirmed by a tax residency certificate); and (c) the interest payments are "connected" to the issuance of quoted bonds by a non-Russian entity.

The new regime will apply not only to interest payments to offshore issuance vehicles (thus covering the so-called LPN structures) but also extend to payments made by Russian issuers under guarantees or sureties that are customarily signed in the context of the so-called "guaranteed SPV" structures. Moreover, accrued interest in respect of Eurobond offerings starting from 1 January 2007 will be effectively grandfathered.

While the new law has had a positive effect on the market, this is only a temporary solution as the Government has effectively reserved the right to revisit its application from the end of 2014. Please see our client briefing *'Taxation of Eurobonds: special offer (but for a limited time only)'*.

Approach to US FATCA

No official approach with respect to the Foreign Account Tax Compliance Act



("FATCA"), the US bill imposing withholding taxes and compliance obligations on banks and financial institutions worldwide, has been developed by the Russian Government so far. Earlier this year the Ministry of Finance announced that exchange of information with the US is possible only under mutually agreed conditions and on the basis of the Russia/US double tax treaty.

FATCA is expected to come into force in 2013. Please refer to our client briefing *'Is FATCA now workable for Europe's financial institutions?'* with respect to general implications for European financial institutions upon the introduction of FATCA.

Value Added Tax

The Russian Parliament has enacted a new law that now exempts from value added tax ("VAT") financial services rendered by securities, FX and commodity market participants (e.g., dealers, brokers, trade organisers, asset

management companies, clearing companies, registrars, depositaries) within the scope of their licences. The VAT exemption also covers other types of services directly connected to the services mentioned above (to be specified in a list to be established by the Russian Government which is not approved yet). The new law will come into force from 1 January 2013.

New developments in application of the Russian thin capitalisation rules: courts are totally lost

Following the SAC's decision in the case of Severny Kuzbass where the court found, contrary to previous practice, that "non-discrimination" clauses in double tax treaties do not overrule Russian thin capitalisation rules (please see discussion of the Severny Kuzbass case in more detail in our client briefing *'Re-Thinking Thin Cap'* published in December 2011) other Russian courts started applying this approach. Also the courts started paying

attention to loan financing terms taking into account the arm's length criterion while considering the application of thin capitalisation rules.

There is also evidence of the application of the Severny Kuzbass case position in

relation to other interest deductibility provisions. For instance, in recent cases involving Renaissance Capital and Commerzbank Eurasia the courts refused to allow full interest rate deductibility under the provisions of double tax treaties based on this position. Although

these decisions may still be changed in higher instances they show an increasing focus in this area by the tax authorities and a change of approach by the courts to interest deductibility issues.

Russian Law Focus: Insider Dealing Law

The Russian Law Focus column in this issue of our **Russia Update** focuses on Russian rules regarding insider dealing that have been recently introduced into Russian law.

Most provisions of the Insider Dealing Law (No. 224-ФЗ dated 27 July 2010) entered into force by 31 July 2011. Together with supplementary regulations adopted by the FSFM, the Insider Dealing Law establishes the rules of play in the area of dealing with inside information and market manipulation. In particular, the Insider Dealing Law restricts insider dealing (which captures both misuse and improper disclosure of inside information) and market manipulation.

A. Insider Dealing

The Insider Dealing Law restricts the use of inside information by prohibiting:

- insider dealing (i.e. transactions with financial instruments, foreign currencies and/or commodities to which inside information relates);
- disclosure of inside information to any person unless such inside information is disclosed to a person included in an insiders list as required by law or in the normal course of an employee's duties or in the performance of a contract; and
- recommending to, instructing or inducing any person to purchase or sell financial instruments, foreign currency and/or commodities to which inside information relates.

Inside information: To qualify as inside information, information needs to meet the following criteria:

- such information has not been made public and if it was made public it would be likely to have a significant effect on the prices of financial instruments, foreign currencies and/or commodities; and
- such information is included in the list of inside information approved by the FSFM.

An exhaustive list of inside information (including but not limited to bank or postal secrecy, official or commercial information or other information protected by law) was approved by FSFM in May 2011. This term has effectively been narrowed down to certain corporate events, transactions, financial statements, annual reports, claims and proceedings affecting an insider being a listed entity.

The information also needs to be accurate and precise. Although it is not clear what "accurate and precise" means, FSFM's list of inside information suggests that the relevant information becomes inside information only after the occurrence of the relevant event (i.e. it should not include intentions, expectations, drafts of documents etc).

The list of inside information almost mirrors the list of "material events" (*существенные факты*) that constitute statutory disclosure grounds for Russian public companies; subject to certain limited exceptions, this category of information is subject to public disclosure. Following the disclosure, it ceases to qualify as inside information and restrictions on its use and disclosure no longer apply.

Liability: The Insider Dealing Law provides administrative sanctions for unlawful use of inside information. With effect from 30 July 2013, deliberate and illegal use of inside information resulting in severe damages, receipt of extra gain (which would not have been received but for such use of inside information) or avoidance of losses (in each case, in the amount of more than RUB 2.5 million) will qualify as a criminal offence in Russia.

Insiders: There are two types of insiders: (i) corporate insiders, including issuers and management companies, their directors, members of the management and internal audit bodies as well as employees having access to inside information, and (ii) sovereign insiders, including federal, regional and municipal authorities and managers of the non-budget state funds having the right to invest in financial instruments, as well as the Central Bank of the Russian Federation.

B. Market Manipulation

Under the Insider Dealing Law, market manipulation comprises:

- dissemination of deliberately false information through media, including the internet,
- transactions or bids, or
- sham transactions or bids done or issued without any intention to execute them,

that in each case create or secure the price, demand, offer or volume of trade of financial instruments, foreign currencies and/or commodities at a level significantly different to that in usual market conditions. The Insider Dealing Law expressly prohibits any market manipulation practices.

Liability: Market manipulation will constitute an administrative offence, or a criminal offence if it results in severe damages, receipt of extra gain (which would not have been received but for such use of inside information) or avoidance of losses, as the case may be, in the amount of more than RUB 2.5 million.

Offences relating to inside information or market manipulation can be prosecuted irrespective of whether the individual or legal entity holding inside information qualifies as an "insider".

Sector Update

Energy, Metals and Mining Metals And Mining

Announced Deals

EVRAZ increases its stake in Raspadskaya

EVRAZ purchased a further 50% interest in Corber Enterprises Limited which holds an 82% interest in Raspadskaya, one of Russia's largest producers of coking coal (based on volume of production in 2011). The remaining 18% of Raspadskaya's shares will remain listed on the Moscow Exchange. Subject to antimonopoly clearance and other conditions, the deal is expected to be completed by the end of 2012.

Rusal and China's Eximbank to spend \$850 million on a new factory

In June 2012, the world's largest aluminum producer Rusal completed a deal with Export-Import Bank of China to develop a USD 850 million greenfield project in Eastern Siberia.

GeoProMining sells Georgian mining assets

In June 2012, GeoProMining Ltd, the diversified metal resources holding company, disposed of its Georgian gold and copper ore mines JSC Madneuli and Quartzite LLC for a total consideration of USD 120 million.

Sector news

Alcon ruling may damage Russia-Nigeria relations

The decision of a Nigerian court to revoke the sale of a plant to Rusal could hurt economic relations between the countries, the Russian Foreign Ministry has warned. Nigeria's Supreme Court ruled against the sale of the former state-owned Alcon to Rusal, saying it should have gone to US-based firm BFI Group.

ARMZ to invest RUB 196.5 billion in development by 2017

OJSC Atomredmetzoloto (ARMZ, part of Rosatom) announced in July 2012 that it will invest RUB 196.5 billion in its

development until 2017. These funds will be divided among several strategic initiatives including upgrading technologies for producing and processing uranium; developing its raw materials base and natural uranium production.

Russia eases precious minerals mining for foreigners

Russia may soon boost geological exploration by allowing foreign companies to develop the strategic gold, diamond and platinum reserves they have discovered. The Ministry of Natural Resources is preparing amendments to current legislation to enable this. Currently, the government has the right to ban any foreign company for further developing a reserve where there is a "threat to the country's national defence and security". Russia hopes the new rules will boost foreign investment in the country's vast precious mineral reserves.



Energy

Announced Deals

BP sells its stake in TNK-BP to Rosneft

BP announced the signing of heads of terms with Rosneft, Russian state-owned oil major, regarding the sale of BP's 50% stake in TNK-BP, the Anglo-Russian oil venture. The purchase price is proposed to be funded through a mix of USD 17.1 billion in cash and equity representing a 12.84% stake in Rosneft. BP also intends to use \$4.8 billion of the cash consideration to acquire a further 5.66 per cent stake in Rosneft from the Russian government. The closing is expected in the first half of 2013.

Rosneft and Eni sign agreement to finance geological exploration works

In July 2012, Rosneft signed a deal with Eni to set up joint ventures for development of offshore projects in the Barents and Black Seas. Under this

agreement, Eni will fully finance geological works pursuant to Rosneft's licence obligations for the relevant sites. Expenses for geological exploration outside of the licence obligations will be split between the two companies in line with their stakes in the projects (Eni – 33.33%, Rosneft – 66.67%).

Sector news

Vladimir Putin sanctions establishment of Presidential Commission for Strategic Development of the Fuel and Energy Sector

Established by a President's order dated June 2012, the Commission will be chaired by Mr Putin and newly appointed Chairman of Rosneft's management board Igor Sechin will be its executive secretary. The Commission also includes representatives of business and governmental authorities.

The Commission's aim is to coordinate the work of the federal and regional authorities, and organisations involved in developing the fuel and energy sector, promoting industrial security and effective management of the minerals and raw materials resource base.

IEA signs accord with Russian entities to improve electricity production and distribution in Russia

The Executive Director of the International Energy Agency (IEA) has signed an accord with two leading Russian power sector entities to share data and best practices in order to improve electricity production and distribution in Russia. The two Russian entities are:

- Moscow-based Energy Forecasting Agency (EFA), which monitors the Russian electric power sector; and
- The Federal Grid Company of the Unified Energy System (FGC), a leading grid operator.

Among other things, the Russian parties will provide data and the information to help IEA study Russia's electricity sector. In return, the IEA will allow both EFA and FGC access to its electricity information online data service. The co-operation will build on Russian efforts to improve and expand domestic electricity markets with transparent price signals based on a legal and regulatory framework that can attract greater investments.

Gazprom announces suspension of Shtokman exploration and posts record profits

After lengthy discussions of investment terms and market rumours, global energy majors Gazprom, Statoil and Total agreed to suspend development of the pipeline gas production site at Shtokman. Earlier, in July 2012 Statoil transferred its 24% stake in Shtokman to Gazprom.



Gazprom posted record financial results for the second year running in 2011. The company beat other energy companies and became the only company in the world with a net profit topping USD 40 billion.

Gazprom Neft to trade oil in Iraq

Gazprom Neft, the oil arm of Gazprom is expanding its presence in Iraq with the acquisition of shares in blocks in the country's Kurdistan region.

Financial Services

Announced Deals

Kuwait to spend \$500 million on Russian investment projects

In June 2012, the Russian Direct Investment Fund signed a co-investment deal with a major Kuwaiti investment body which will see the Arab country investing USD 500 million alongside the RDIF into Russia.

Update from Sberbank: an SPO, an acquisition and new trade finance partner

In the last few months Sberbank, Russia's largest bank with market capitalisation of USD 64 billion and rated in the Top 20 of the world's banks, continued to produce headlines.

In August, Sberbank and The Export-Import Bank of Korea concluded certain trade finance agreements in order to increase financing of trade flows from Korea to Russia. The agreements were signed by Herman Gref, CEO and Chairman of the Board of Sberbank, and Kim Yong Hwan, Chairman and President of the Export-Import Bank of Korea.

In September, Sberbank completed a secondary public offering (SPO) of a 7.6% stake. The size of the offering which targeted both domestic and international investors amounted to USD 5.2 billion. Sberbank's SPO

became the largest privatisation deal in Russia, as well as the largest secondary placement in EMEA in 2011 – 2012 and one of the world's largest public offerings in 2012.

In the same month, after Turkish antimonopoly regulators cleared Sberbank's purchase of local DenizBank, Sberbank completed the acquisition of 99.85% of this Turkish bank from French-Belgian banking group Dexia. The transaction was announced on June.

Promsvyazbank delays IPO

Promsvyazbank has decided to postpone its IPO. According to the bank's press release, certain investors have shown interest in it and the bank would like to take time to consider opportunities of raising capital outside capital markets. It was announced earlier that the bank set an indicative price range for its IPO at \$10-\$12 per GDR with a total size of USD 345 to 414 million.

Otkritie buys NOMOS Bank stake

Otkritie Financial Corporation has acquired 19.9% in NOMOS Bank from PPF Group through a swap structure that also involved shares in Uralkali. Otkritie also announced its plan to become Russia's largest independent and publicly traded financial group. To achieve this goal, Otkritie plans to consolidate 100% of the shares in NOMOS Bank over the next two years (including through a buy-out of NOMOS' current minority shareholders).

Sector news

New name for the Russian stock exchange

A shareholders' meeting of OJSC MICEX RTS resolved to amend the stock exchange's name after completion of the merger between MICEX and RTS with effect from 3 July.

The new name is Open Joint Stock Company «Moscow Exchange MICEX-RTS» (Moscow Exchange).

Joint investment fund to invest in Russian shares placed on Moscow Exchange

At a meeting held on 21 June, President Putin announced plans to establish a joint investment fund of Russian Direct Investment Fund and a group of foreign investors. According to RDIF's head Kirill Dmitriev, the fund will include BlackRock, Franklin Templeton and Goldman Sachs whose combined total assets are as large as USD 5 trillion. The fund will be making investments of up to USD 100 million in Russian companies with annual revenue over USD 500 million which consider placing their shares on the Moscow Exchange in the next 6 to 18 months.

Transport & Logistics

Announced Deals

Globaltrans completes two SPOs in four months

In July, Globaltrans, a leading private freight rail transportation group with operations in Russia, the CIS and the Baltic countries, completed an offering of ordinary shares in the form of GDRs listed on the London Stock Exchange. The total offering size amounted to USD 520 million and including treasury shares sold by the company and a sale of shares by Transportation Investments Holding Limited (TIHL), Globaltrans' largest shareholder.

On 16 October, another placement of Globaltrans' GDRs was completed. The new offering involved 5.74% of Globaltrans' outstanding ordinary share capital and amounted to approximately USD 200 million with a price of USD 19.50 per GDR (increasing from USD 16.50 per GDR in the July offering).

Following the two deals, TIHL remains Globaltrans' single largest shareholder

holding a 34.5% stake. According to Globaltrans' press release TIHL has made it clear that it intends to remain a long-term strategic investor in the company and that the deal's proceeds will be used to pursue other investment opportunities in Russia.

Maersk agrees USD860 million Russian ports deal

AP Moeller-Maersk (which owns APM Terminals) will acquire a 37.5% stake in Global Ports, one of three London-listed subsidiaries of N-Trans, the Russian private transport group. The deal is Maersk's first large investment in Russia. The deal is expected to close by the end of 2012 after regulatory clearances are obtained.

Summa Group to acquire 56% of FESCO

Summa Group, the Russia based conglomerate engaged in oil exploration, transportation, logistics, mining, telecommunications and engineering, announced in June 2012 its proposed acquisition of 56% of Far Eastern Shipping Company FESCO from the Industrial Investors Group. FESCO is a listed shipping enterprise headquartered in Moscow, operating in cabotage transport, export-import load and charter freight transportation.

Transneft has completed the acquisition of OAO Vostokneftetrans

AK Transneft OAO, the Russia based government owned company engaged in oil and gas transportation, has agreed to acquire a 49% stake in OAO Vostokneftetrans, a Russia based company engaged in crude oil transportation, from Uralvagonzavod, a Russia based manufacturer of freight, traction and passenger rolling stock and underground railways, for a consideration of RUB 3.6 billion.

Sector news

Aeroflot ranked among world's top ten carriers

According to Air Transport World, Aeroflot has reached the top 10 of the world's airlines by net revenue for 2011. Its net revenue has nearly doubled compared to 2010 and amounted to USD 491 million.

Two major Moscow airports to merge in 2013

It is planned to merge Sheremetyevo and Vnukovo into a single complex with a single management company. The merger into a single complex is expected to provide synergy benefits and to help increase efficiency of production and business processes. Also, on 28 August 2012 the Russian Federal Air Transportation Agency (Rosaviatsiya) granted a permit for construction of a third runway in Sheremetyevo.

EasyJet to launch flights to Moscow

EasyJet, the UK's largest airline, was awarded the rights to fly between London and Moscow by the UK's Civil Aviation Agency and will launch flights from spring 2013. According to the air carrier's press release, EasyJet will operate an Airbus A320 on two services a day between London Gatwick and Moscow Domodedovo airport and expects to fly over 230,000 passengers in its first year of operations.

TM&T

Announced Deals

Megafon announces IPO plans

On 9 October 2012, OJSC Megafon announced its intention to proceed, subject to market conditions, with its long-awaited IPO. However, a few weeks later the road show was postpone again. The deal is expected to include an offering of ordinary shares through the Moscow Exchange (formerly known as MICEX-RTS) and offering of GDRs through the London Stock Exchange.

MegaFon and Scartel merged into Garsdale

The shareholders of Russia's mobile giant MegaFon and Scartel, a 4G Internet provider operating under the Yota brand, have reportedly completed the previously announced merger into a holding company called Garsdale, which will consolidate a 100% equity position in Scartel and an interest of more than 50% in MegaFon. Alisher Usmanov's AF Telecom, which holds a 50% interest in MegaFon, will own an 82% interest in Garsdale. The remaining 18% interest will be distributed between Telconet Capital and Russian Technologies Corporation commensurate with their stakes in Scartel. The combined holding should have access to more than 50% of Russia's LTE spectrum.

Altimo has raised its stake in VimpelCom

Altimo, the telecom branch of Mikhail Fridman's Alfa Group, and Norway's Telenor have moved closer to settling their long dispute over control of the major Russian mobile operator VimpelCom. On 15 August 2012, Altimo bought 305 million common shares in VimpelCom from Weather Investments, owned by the Egyptian billionaire Naguib Sawiris, for USD 3.6 billion. With the deal, Altimo has raised its voting stake in VimpelCom to 40.5% from 25%. Meanwhile Weather Investments has exercised its option to sell 71 million VimpelCom preferred shares to Telenor for USD 113.6 million, raising Telenor's voting stake in VimpelCom to 42.95%.

Sector News

Russia to create a "black list" of websites

A series of amendments to existing laws, which taken together create a single register for websites containing

illegal content, was submitted to the State Duma. The internet "black list" would be managed by Roskomnadzor, the communications regulator. Under the legislation, internet providers will have to install equipment enabling the government to block offending websites.

Results of the federal auction for LTE services announced

MegaFon, MTS, VimpelCom and Rostelecom have won the federal auction and obtained licences for the LTE spectrum from the Communications and Press Ministry. The operators are obliged to begin offering LTE services by 1 June 2013 and must invest at least RUB 15 billion in their LTE operations each year.

VTB Capital to purchase Bulgarian Vivacom

Russia's VTB Capital and Bulgaria's Corporate Commercial Bank will complete the purchase of Bulgarian telecom company Vivacom for EUR 737 million by the end of 2012. Bulgarian Telecommunications Company (BTC), the country's largest provider of fixed-line telephony and broadband internet, which operates the Vivacom brand name, was put up for sale in 2011 due.

Possible alliance between Rostelecom and Tele2

OAO Rostelecom, Russia's leading long-distance phone operator, may create an alliance with a Swedish company Tele2 AB (TEL2B). Rostelecom may exchange its 100% stake in ZAO Sky Link, a mobile operator, for the Swedish company's stake in the mobile operator Tele2 Russia. Another possibility apparently being considered is the creation of a new entity combining all the mobile assets of Rostelecom and Tele2 Russia, including LTE licences, in which each company would own a 50% stake.

Real Estate

Announced Deals

Moscow mayor's office loses its hotel interests

By the end of 2012, 100% of the shares of the Hotel Company, a company set up jointly between Moscow city and American billionaire Ronald Lauder, will be put up for auction. The Hotel Company includes 11 low price hotels across Moscow and owns 100% of the shares in Intour-Vozrozhdenie, a 50% stake in Mega-M, 16% in Infa-Hotel OJSC, and a 14.99% stake in the Baikal Hotel OJSC.

WTC stake sold by city authorities

The city authorities have sold their share in the World Trade Center located near the Moscow City (with a total of 270,000 sq.m. of office and hotel spaces). The stake, which comprises 9.64 % of the company's shares, was sold to Prominexpo for RUB 1.448 billion.

This was the second attempt of the authorities to sell their interest in the WTC. Last autumn, the stake was appraised at RUB 1.445 billion, but the two potential acquirers (whose names were not disclosed) refused to participate in the bidding.

The current major shareholders are the Chamber of Commerce and Industry (51.02%) and Anatoly Gavrilenko, a member of the board of directors of the WTC, through the Alor Investment Group (18%).

Moscow's downtown metropol hotel headed to auction

As a result of a tender held by the Moscow mayor's office in August, the 5-star Metropol hotel and the 10,000 sq.m of land underneath it has been

sold to a company controlled by Alexander Klyachin, owner of the Azimut Hotels chain. The price for this lot (with 363 rooms and total area of 40,000 sq.m) reportedly was RUB 8.874 billion. The sale of the Metropol continues the authorities' intention to divest the city of "non-core" assets.

Consumer Goods and Retail

Announced Deals

Karat Moscow Processed Cheese Plant: Russian Funds to acquire 46% stake from Vladimir Korsun

Russian Funds Investment Group agreed to acquire a 46% stake in Karat Moscow Processed Cheese Plant, the Russia based processed cheese producer, from Vladimir Korsun.

Baltika shares delisted from the moscow exchange

Baltika Brewery has delisted its shares from the Moscow Exchange. Trading of Baltika's shares stopped on 4 October 2012, any further operations need to be made only in the off-board market.

Former Lenta co-owners buy 51% of Rive Gauche from Oleg Boiko

Former Lenta co-owners Dmitry Kostygin and August Mayer have acquired 51% of the Rive Gauche chain from businessman Oleg Boiko. According to *Kommersant*, 24% of the retailer remains owned by Boiko's Finstar, and another 25% by chain founders Pavel and Larisa Karaban. The Rive Gauche perfumes and cosmetics chain is second in size in Russia behind L'etoile. It operates Rive Gauche and Douglas Rivoli stores and as of the end of the first half of 2012 had 190 outlets.



Forthcoming Events

This autumn promises to be busy as usual with annual conferences and events in Russia, including:

- Macro-economic forecast 2013 - Vedomosti (7 December 2012, Baltchug Kempinski, Moscow, Russia)
- PPP in Russia 2012 - Russian Business Forum (7 December 2012, Marriott Tverskaya Hotel, Moscow, Russia)
- Bonds Russia - C-bonds Congress (6 - 7 December 2012, Holiday Inn, St.Petersburg, Russia)
- Russia Retail 2012 - Vedomosti (4 December 2012, Swissotel, Moscow, Russia)
- Taxation of Financial Instruments in Financial Institutions and Corporations in Russia - C5 Group (29 November 2012, Moscow, Russia)
- Financial Forum Russia 2012 - Vedomosti (28 - 29 November 2012, Ritz-Carlton, Moscow, Russia)
- Russian Banking Forum 2012 - Adam Smith Conferences (26 - 29 November 2012, Grange St Paul's Hotel, London, UK)
- Housing economy class: construction and investment - Russian Business Forum (28 November 2012, Marriott Tverskaya Hotel, Moscow, Russia)
- Private Equity and Venture Capital in Russia - Russian Business Forum (23 November 2012, Marriott Tverskaya Hotel, Moscow, Russia)
- M&A Congress - C-bonds Congress (22 November 2012, Novotel, Moscow, Russia)

- Derivatives & Structured Products
Russia - EMF Conferences (19 - 20
November 2012, Ritz-Carlton,
Moscow, Russia)
- IFRS - C5 Group (15 - 16 November
2012, Moscow, Russia)
- Railway infrastructure: financing and
investment - Russian Business Forum
(9 November 2012, Marriott Tverskaya
Hotel, Moscow, Russia)

CC Moscow Update: News and People

Logan Wright elected new office managing partner for Moscow

Logan Wright has been elected as managing partner of the Moscow office with effect from 1 January 2013. Logan will succeed Jan ter Haar, who has been managing partner in Russia since 2009. Logan has been with Clifford Chance in Russia since 2000, and has been a partner since 2006 and will continue to work closely with clients alongside his new leadership responsibilities.



Logan said, "I am delighted to be asked to take on this role, and will seek to build on the momentum achieved under Jan's leadership, which has been pivotal to the office's success in recent years in the face of a challenging and uncertain market. I look forward to working with the other Moscow partners, and colleagues around our global network, as we continue to reinforce our reputation as the leading international law firm in Russia."

Another victory for our sailing team

On 14-16 September 2012, for the fifth time in a row CC Moscow participated in and won the Juris Cup, the largest European regatta for legal professionals which was held in Marseille, France. Altogether, the event involved more than 1,000 participants from all over the world with 107 boats of different classes competing on different routes and in changing weather conditions during the three days of the regatta.