

PRIVATIZATION

Update on Privatization Issues

February 2011

To Our Clients and Friends:

Russia is entering a new stage in the privatization of federal property that envisages the sale of a considerable portion of the state's interests in companies involved in various sectors of the economy. Amendments to Federal Law No. 178-FZ dated December 21, 2001 on Privatization of State and Municipal Property (the "Privatization Law") came into effect in June 2010, allowing the Government of the Russian Federation to, among other things, set forth a privatization plan for federal property for a term of between one and three years.

On November 27, 2010, the Russian Government issued Resolution No. 2101-r endorsing the Projected Plan/Program for Privatization of Federal Property and Guidelines for Privatization of Federal Property for 2011–2013 (the "Privatization Program"). The Privatization Program lists companies and other assets that are due to be privatized before the end of 2013, as well as the size of the stake to be sold as part of the privatization.

In particular, in 2011–2013 it is proposed that a number of Russia's largest and most successful companies in various sectors of the economy be privatized, such as:

Rosneft Oil Company (the largest Russian oil company, market capitalization approx. \$85 billion)	25 percent minus one share
VTB Bank (one of the leading Russian state-controlled commercial banks, market capitalization approx. \$30 billion)	35.5 percent minus one share
RusHydro (the largest Russian hydropower generating company, market capitalization approx. \$15 billion)	7.97 percent minus one share
Federal Grid Company of Unified Energy System (the largest Russian electrical power transportation company, market capitalization approx. \$14 billion)	4.11 percent minus one share
Sberbank of Russia (the largest Russian state-controlled commercial bank. Market capitalization approx. \$80 billion)	7.58 percent minus one share
Russian Railways (Russian railways monopoly, not listed)	25 percent minus one share

The exact timing and method of privatization of these companies is yet to be determined by the Russian Government.

The Russian Government plans to invite Russian and international investment banks to participate in the organization and conduct of the privatizations. In its Resolution No. 1874-r dated October 25, 2010 (as amended on December 20, 2010), the Russian Government approved a list of investment banks that will be arranging the sale of privatized property on behalf of the Russian Federation and acting as seller. This list includes Bank Credit Suisse (Moscow), VTB Capital, Deutsche Bank, VEB Capital, Merrill Lynch Securities, Morgan Stanley Bank, J.P. Morgan Bank International, Goldman Sachs (Russia), Sberbank and other major banks. The list of investment banks may be amended at any time. Investment banks not included in this list may take part in privatization transactions, but not on behalf of the seller.

Privatized assets must be sold in compliance with the Privatization Law, which sets forth a complete list of privatization methods that may be used, including:

- sale at auction or by tender;
- sale of open joint stock companies shares at a special auction (*i.e.*, same price auction sale to a number of winners);
- sale of open joint stock companies shares outside of the Russian Federation;
- sale of open joint stock companies shares through a stock exchange;
- sale through a public offering; and
- sale without announcing a price.

The most common form of privatization at the present time is the sale of shares at auctions; however, in all likelihood, investment banks appointed by the Russian Government will be proposing other privatization methods for the sale of important assets, such as, for example, the sale of depositary receipts representing the shares of Russian companies outside the Russian Federation.

The Privatization Law also regulates the scope of information to be provided to investors within the privatization program (including the conduct of legal due diligence of companies whose shares are being sold), the procedure for determining the price of the privatized asset, and other aspects of privatization. We plan to bring you more on these other aspects, as well as on developments in the law and other privatization news, together with a review of privatization methods, in our future updates on privatization issues.

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We would be happy to answer any questions you may have on these or any other matters relating to privatization.

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