We are pleased to present the third Squire Sanders Global M&A Briefing, produced in association with Mergermarket.

Contents include:

Announced outbound M&A activity in H1 2013 declined in volume 40% year-on-year (YoY) to 18 deals, and dropped in value 60% YoY to US$2.1bn **(see page 2)**

Energy, mining and utilities remains Russia's standout sector, but with shifts in the global energy power balance, Russian oil firms will look further afield to diversify their portfolios and mitigate risk **(see page 2)**

Ukraine and the rest of the CEE accounts for more than one third (36%) of all Russian outbound M&A in 2011 through 2013 **(see page 3)**

There is growing interest in financial services, as exemplified by Sberbank's acquisition of CEE-based Volksbank International, as well as Gazprombank establishing a joint venture with Italian bank Intesa Sanpaolothe **(see page 4)**

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Russia Outbound M&A

Squire Sanders Global M&A Briefing

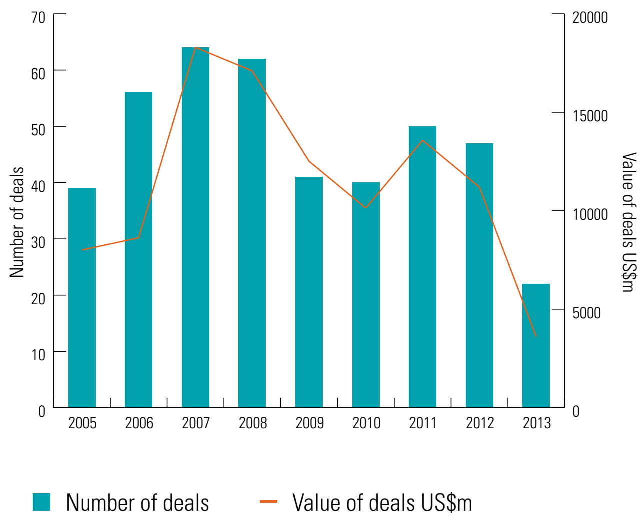
2013

Over the past 20 years the Russian economy has developed into a global powerhouse, and currently ranks as the 10th biggest worldwide. Although GDP growth rates may undershoot targets in 2013, the economy has nonetheless posted gains in a time of global contraction.

Russia's prominence on the world stage has, in large part, been underpinned by its vast natural resources, especially from the early 2000s onward, when global commodity prices spiked for a sustained period. That said, the economy is becoming increasingly multi-faceted as it begins to mature. The government has, for instance, made a concerted effort to foster industries such as technology. With the ongoing establishment of the Skolkovo Innovation Centre, the Russian government hopes to lay the groundwork for a Russian Silicon Valley.

This growing dynamism is beginning to feed into M&A. Generally, domestic activity has sustained Russian M&A, with state-owned enterprises and publicly listed companies acting as serial acquirers. Although Russian outbound

Russian Outbound M&A Trends



Russia Outbound M&A

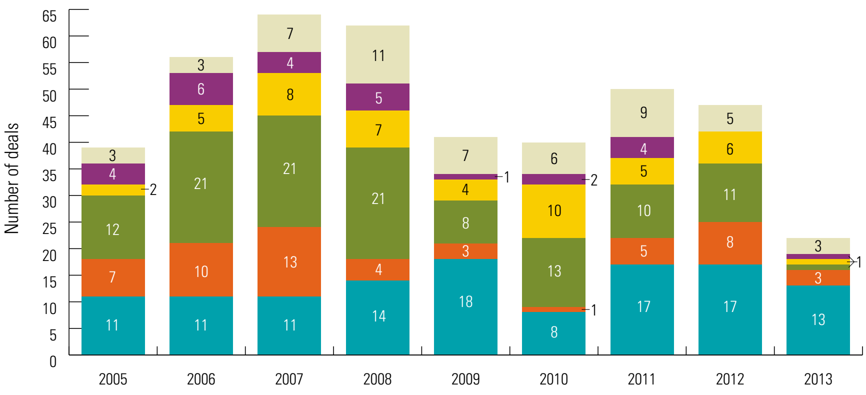
M&A represents a relatively small proportion of overall dealmaking in the country, it is an increasingly important component of the Russian M&A landscape. Excluding the frenetic levels reached in 2007 and 2008, Russian outbound M&A has exhibited a generally positive trend since the early 2000s, with dealmakers from a wider spread of industries looking farther afield to find growth.

In terms of announced activity in H1 2013, outbound M&A declined in volume 40% year-on-year (YoY) to 18 deals, and dropped in value 60% YoY to US$2.1bn. While these figures may seem disappointing, it is worth taking stock of the more positive trends that have developed over the past decade.

Contrasting recent activity with that in 2007 (Russian outbound M&A's biggest year by volume and value over the last 10) is useful to observe general trends and movements in the market. Dealmaking at the upper end of the market has remained relatively consistent since the crisis. While H1 2007 – Russian outbound M&A's biggest year by volume and value over the past eight years – witnessed seven deals over US$500m, last year witnessed five. Already in 2013, there have been three deals over US$500m, two of which were announced in Q3 2013.

But even when taking a longer view, signs of malaise are present. Dealmaking in the middle and at the lower end of the spectrum has contracted noticeably since the onset of the global financial downturn. While there were 34 deals under US$100m in 2007, there were 19 in 2012, or a 44% decrease.

Russian Outbound M&A Deal Size Splits, Yearly



Key for above graph:
- Not disclosed
- <US$15m
- US$15m-US$100m
- US$101m-US$250m
- US$251m-US$500m
- >US$500m

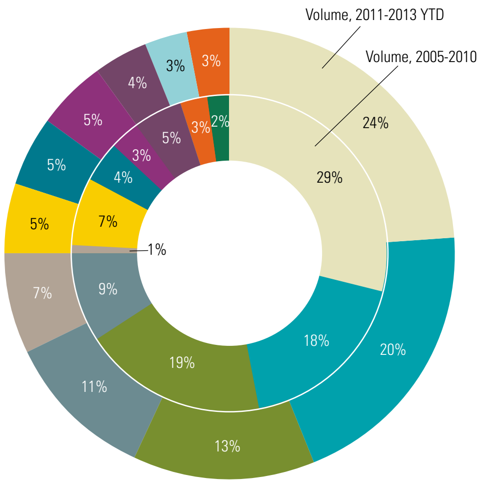
Sector Snapshots

Rather than relying on a single sector to sustain deal flow, Russia sees M&A spread over a range of industries. In recent years, this spread has become increasingly evident by volume: in 2005 through 2010, the three biggest industries by volume (Industrials & Chemicals, Energy, Mining & Utilities and TMT) comprised 66% of total dealmaking. In 2011 through 2013 year-to-date (YTD), these industries by volume comprise 57% of deal flow.

That said, energy, mining and utilities remains Russia's standout sector. Russia is the world's largest oil producer, and is second to Saudi Arabia as the world's largest exporter. The country's oil and gas reserves have largely underpinned Russia's economic growth since the dissolution of the USSR.

But the shale gas boom in the US has radically altered the global energy power balance, with the US set to surpass Russia as the world's biggest gas producer in the next 20 years. Other European countries, particularly Poland, France and Norway, have significant shale deposits, and are looking to exploit them. Russia, currently the main supplier of crude oil into the EU, is seeing its energy dominance threatened. With these developments occurring so swiftly, the climate is primed for Russian oil firms to look further afield, in order to diversify their portfolios to help mitigate risk.

Russian Outbound M&A Deal Volume, Split by Target Sector



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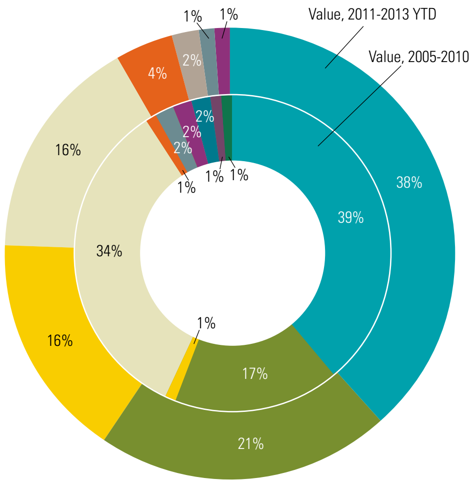


- Energy, Mining & Utilities
- TMT
- Financial Services
- Industrials & Chemicals
- Transportation
- Pharma, Medical & Biotech
- Consumer
- Construction
- Leisure
- Business Services
- Agriculture
- Real Estate

Russia Outbound M&A

Activity in the sector also looks likely to remain strong due to the prevalence of troubled energy, utilities and resources firms throughout Europe. Many have struggled under the weight of the economic downturn. A number of the past few years' major deals have had continental European sellers looking to free up much-needed cash.

For instance, in one of the biggest outbound deals of 2013 to date, state-owned oil giant Rosneft Oil Company announced plans to purchase a 21% stake in oil refining company Saras from the Moretti family. The deal was valued at US$357m. The deal follows a year of weak earnings for Saras, as the refining industry across Europe struggled, due to high oil prices and muted demand.

The telecommunications, media and technology (TMT) sector has also seen notable activity over the past few years, and has grown in significance. Although TMT's market share by volume has dropped 6 percentage points (pp) to 13% in 2011 through 2013 YTD, its share by value has grown 4 pp to 21% of overall M&A. At the root of this massive jump was telecommunications investment firm Altimo's August 2012 US$3.5bn acquisition of a minority share in Netherlands-based VimpelCom, one of the world's largest mobile phone operators. The transaction saw Altimo increase its ownership stake to 48%. This deal put to rest a decade-long competition between Altimo and Norway's Telenor for control of Vimpelcom. Norway's Telenor still owns 42%.

Regional Perspectives

Russian outbound M&A is still a largely localized affair. The linguistic and cultural ties between Russia and the CEE are hard to ignore, particularly among Commonwealth of Independent States (CIS) countries. Russians, for instance, refer to the CIS countries as "near Russia". Combining Ukraine with the rest of the CEE, the region is the target of more than one third (36%) of all Russian outbound M&A in 2011 through 2013.

But when examining deal value, the CEE and the CIS's predominant position is less evident. Instead, activity in the region by value was a less substantial 19% of overall activity in 2011 through 2013 YTD. The regions that saw larger shares of value did so because of singular, blockbuster transactions. For instance, the Benelux states accounted for 29% of deal value in 2011 through 2013 YTD, but during that period, the only deal with a disclosed deal value was Altimo's takeover of VimpelCom.

The same is the case in South Eastern Europe (SEE), which represented 16% of volume in 2011 through 2013 YTD, up from 6% in the period of 2005 through 2010. The responsible acquisition was Russia-based Sberbank's acquisition of Denizbank, a Turkey-based commercial bank, for US$3.8bn. The deal came as profits in the Turkish financial sector surged. Sberbank had been looking for opportunities with which to expand its international footprint, and acquiring Denizbank presented a rare opportunity to do so in a healthy economy.

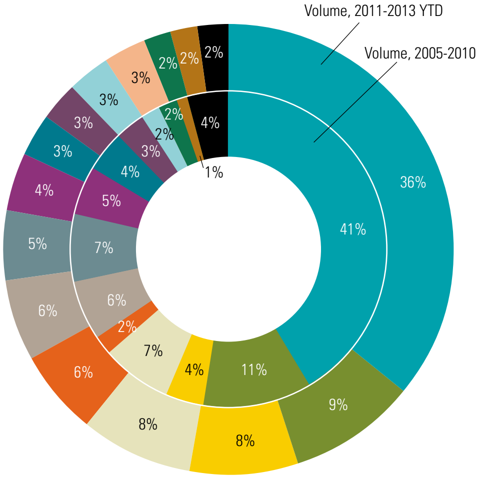
Elsewhere, there is notable activity based around broader market trends. For instance, in 2012 and 2013, there have been several instances of high-value industrials and chemicals transactions in northern Europe. Chris Rose, partner at Squire Sanders, comments: "Typically, these transactions have targets that are highly specialized, and that add value to Russian buyers' portfolios." In one notable example, the Renova Group, a Russian conglomerate with interests in the industrials and chemicals space, announced plans to purchase a 60% stake in beleaguered Switzerland-based Schmolz + Bickenbach, which specializes in steel long products. The deal puts to rest a protracted struggle amongst the family of Schmolz + Bickenbach's founder, who were debating the possibility of a restructuring.

Outlook

Russia has historically conducted a significant proportion of its outbound M&A in CIS countries, such as Ukraine and Kazakhstan. The region's political, linguistic and cultural ties are at the root of these long-standing, close relationships. Although a significant amount of outbound dealmaking still takes place within the CEE, it is now complemented by increased dealmaking into CEE countries like Czech Republic, Bulgaria and Poland that had previously been less receptive to Russian investment.

A sizeable portion of this activity is taking place in the manufacturing arena, and can prove key strategically to Russian buyers. David Wack, partner at Squire Sanders, explains: "Many

Russian Outbound M&A Deal Volume, Split by Target Region



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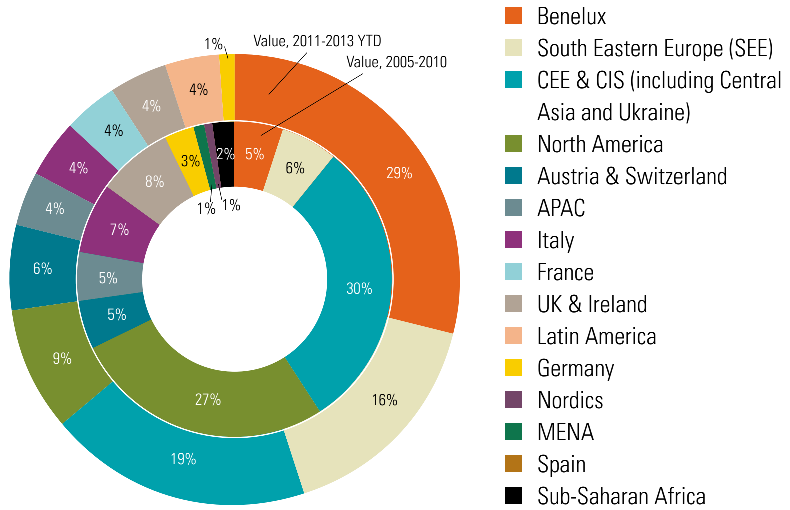

Russia Outbound M&A

Top Deals, 2012 to 2013 YTD

Announced Date	Deal Status	Target Company	Target Sector	Target Country	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Value USD(m)
08/06/2012	C	Denizbank A.S.	Financial Services	Turkey	Sberbank CIB	Russia	Dexia SA	Belgium	3760
15/08/2012	C	VimpelCom Ltd (14.8% Stake)	Telecommunications: Carriers	Netherlands	Altimo	Russia	Orascom TMT Investments S.a r.l.	Luxembourg	3600
14/01/2013	P	Uranium One Inc (48.6% Stake)	Mining	Canada	ARMZ Uranium Holding Co	Russia			1525
05/11/2012	C	GEFCO SA (75% Stake)	Transportation	France	Russian Railways OAO	Russia	PSA Peugeot-Citroen SA	France	1022
12/07/2013	P	Schmolz + Bickenbach AG (59.54% Stake)	Industrial Products & Services	Switzerland	Renova Group of Companies	Russia			934
19/07/2012	C	Bulgarian Telecommunications Company (93.99% Stake)	Telecommunications: Carriers	Bulgaria	VTB Capital ZAO; Corporate Commercial Bank AD	Russia			896
13/08/2013	C	Bever Pharmaceutical Pte Ltd	Medical: Pharmaceuticals	Singapore	Pharmstandart OAO	Russia	Bristley Enterprises Ltd	Russia	590
31/01/2012	C	ISAB S.r.l. (20% Stake)	Energy	Italy	Lukoil OAO	Russia	ERG S.p.A.	Italy	523
15/04/2013	P	Saras S.p.A. (20.99% Stake)	Energy	Italy	Rosneft Oil Company OAO	Russia	Massimo Moratti (Private Investor); Gianmarco Moratti; Angelo Moratti S.a.p.a.	Italy	357

C = Complete; P = Pending

of these manufacturing assets were actually built during the Soviet era and are now being renovated and upgraded to provide Russian firms with access to the EU."

Russian outbound activity is not limited to Eastern Europe. There is also increased appetite for developed market buys. Here, there is demand in the technology and communication sectors, with Russian firms having a mandate to bring technologies back to Russia to help diversify the economy. While this process is still in its infancy, there have been a number of acquisitions, in both Western Europe and the US – a country which has seen little interest from Russian acquirers in any other sector. There is also a growing interest in financial services, as exemplified by Gazprombank establishing a joint venture with Italian bank Intesa Sanpaolo. The new venture will invest in Russian and Italian businesses looking to grow internationally, and received backing from both countries' governments.

Turning to the energy and mining sector, Russian firms are taking an increased interest in Africa and South America "Russia had significant ties to Africa during the Soviet era and this experience is being brought back into use, with firms looking closely at both oil and gold," Ivan Trifonov, managing partner at Squire Sanders' Moscow office, notes. "Among Russian oil companies, there is a feeling that they are now too large to remain focused on their own region. International expansion is supported by the political objective of increasing Russia's global influence. In gold firms are looking for opportunities that are easier to mine in comparison to the remaining resources in Russia, which require huge investment to tap economically."

Sergey Treshchev, partner at Squire Sanders, elaborates: "The choice of investment depends on the resources of the local market as well as the stability of the political regime. In Latin America the political environment is generally less risky, although the political leadership still has a big bearing on the attractiveness of an investment. In these markets there is generally good geological research, but competition is high, with these assets attracting interest from a range of different investors."

The energy sector has also seen a growing focus on Asia, particularly China, with deals in this region generally based on the pursuit of new customers. Patrick Brooks, partner at Squire Sanders' Moscow office, states, "Moves into Asia have been prompted by the energy revolution, resulting from the development of alternative extraction measures such as fracking. These advances mean that the steady cash flow from Europe is no longer assured as Europe is building LNG terminals and importing more gas from the US. While deals in Asia are currently few and far between, there is a huge amount of talk. In the future we anticipate a significant shift eastwards in this space."

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