

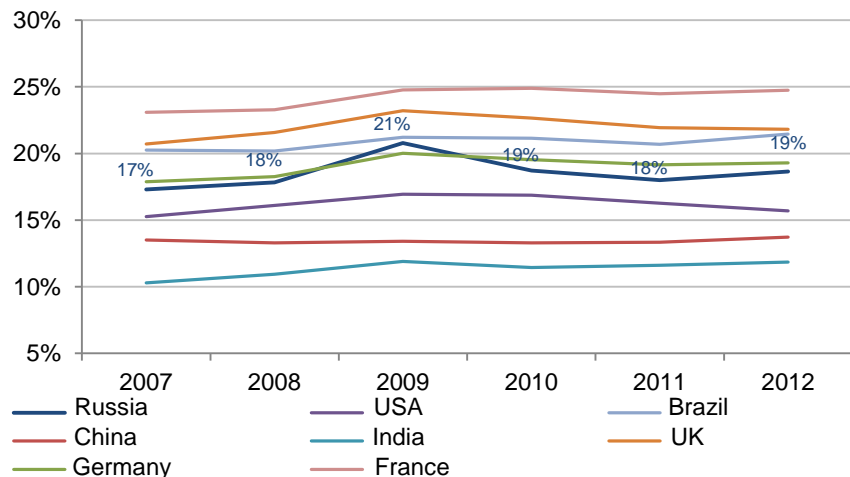
# Russian Federation Privatization Programme

2011 – 2013 Privatization results and plans for 2014 – 2016

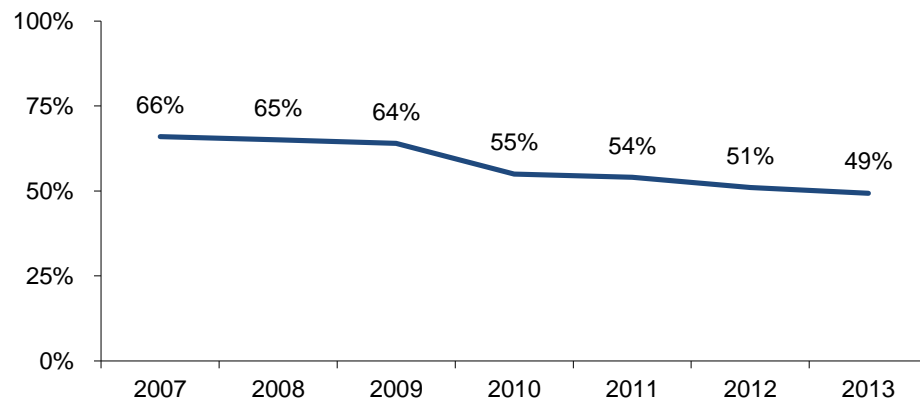
**February, 2014**

# Public Presence in the Economy of Russia and other Countries

## Public Share in GDP (%) <sup>(1)</sup>

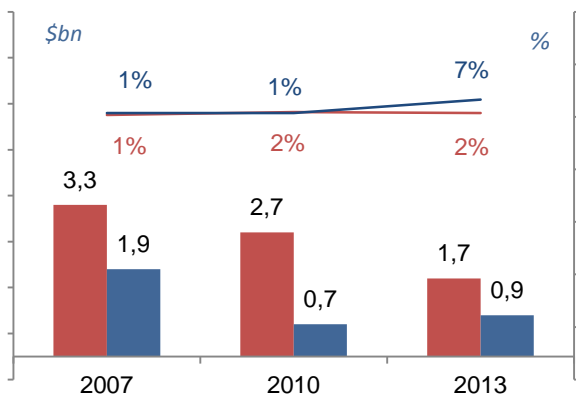


## Public-owned Companies Share in the RTS Index (%) <sup>(2)</sup>

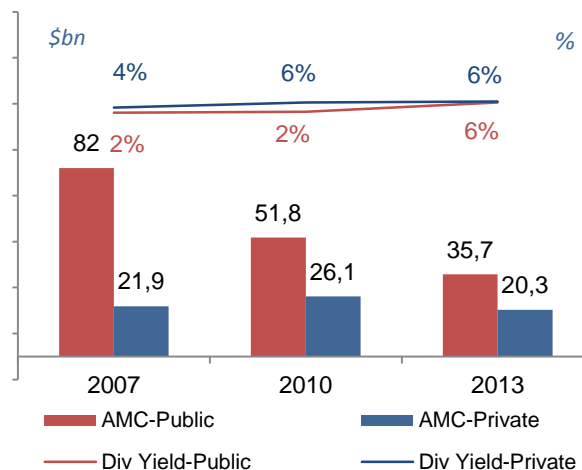


## Average Market Capitalization (AMC) and Dividend Yield (Div Yield) of Companies

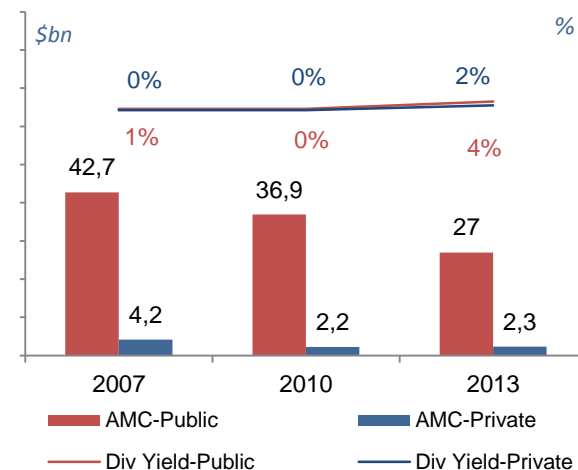
### Transportation



### Oil & Gas



### Financial Institutions
















(1) Source: World Bank. Share of total public consumption in GDP including all public expenses except military expenditure

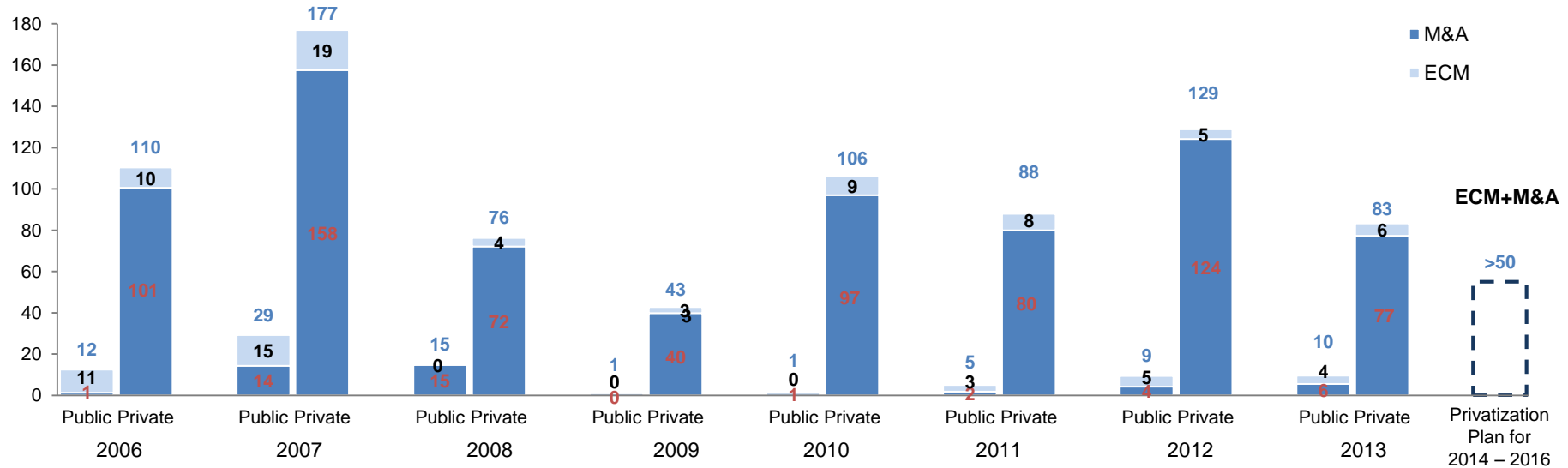
(2) Source: Bloomberg. Total market capitalization of public-controlled companies included in the RTS index divided by the market capitalization of all the companies included in the RTS Index

# Privatization Plans and History

## Transactions on International Markets 1995 – 2013 <sup>(1)</sup>

Country														
Privatization transactions (\$bn)	102	517	104	100	228	183	113	15	145	149	107	52	62	
Total transactions (\$bn)	23,700	2,712	5,026	2,644	2,274	2,454	1,670	2,187	1,598	1,081	1,061	211	195	
Share of privatization transactions (%)	0.4%	19%	2%	4%	10%	7%	7%	0.7%	9%	14%	10%	25%	32%	
ECM	Privatization transactions (\$bn)	85	320	27	85	88	79	45	7	100	16	42	28	9
	Total transactions (\$bn)	4,124	1,084	881	734	545	503	456	467	336	266	134	59	31
	Share of privatization transactions (%)	2.1%	30%	3%	12%	16%	16%	10%	1.4%	30%	6%	31%	48%	30%
M&A	Privatization transactions (\$bn)	17	196	77	15	140	103	68	9	46	134	65	24	53
	Total transactions (\$bn)	19,575	1,628	4,145	1,910	1,729	1,950	1,214	1,720	1,262	815	927	152	164
	Share of privatization transactions (%)	0.1%	12%	2%	1%	8%	5%	6%	0.5%	4%	16%	7%	16%	32%

## Transactions on the Russian Market Since 2006 <sup>(1)</sup> (\$bn)



(1) Source: Dealogic

# Objectives and Goals of Privatization

In Accordance with Government Directive No. 1111-r 01.07.2013, the key goals of federal property privatization are to:

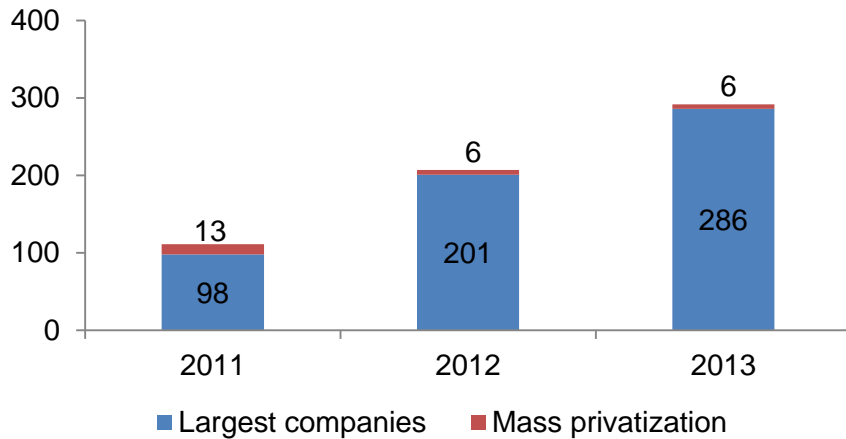
- ✓ Create conditions to attract non-budget investments for the development of joint-stock companies based on new technologies
- ✓ Reduce the public share in the economy for the purpose of developing and promoting innovation-based initiatives of private investors
- ✓ Improve corporate governance
- ✓ Stimulate development of the Russian stock market
- ✓ Establish integrated structures in strategic sectors of the economy
- ✓ Increase the federal budget proceeds

## Key privatization factors

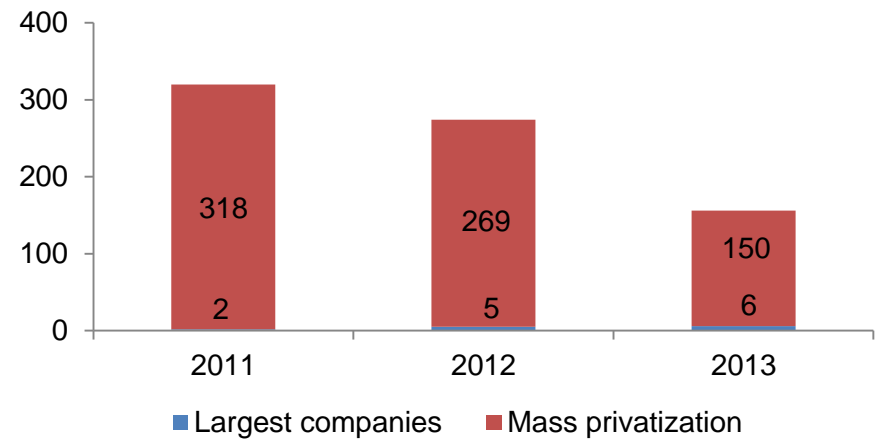
- The successful implementation of the Privatization Programme directly depends on the world financial markets conditions and the level of potential investors demand
- The preparation company for privatization assumes increasing of investment appeal due to internal and external steps, including regulatory changes
- The specific industry conditions are also significantly influence the quality and results of privatization process. Uncertainty of long-term industry regulation has negative impact on investors expectations and company's capitalization

# Privatization Results 2011 – 2013

## Volume of transactions (\$bn)



## Amount of transactions



## Largest 2011 Privatization Transactions

### Companies



### Comments

- Agent – JSC «Gazprombank»
- Sale structure – competitive selection of buyers for the single block of shares in a two-step bidding process
- Stake – 100% of authorized capital
- Market value determined by an independent appraiser – RUB1,74bn.
- Tender date – 14 December, 2011

- Tender participants – publishing houses : ZAO «OLMA Media Group», ООО «Publishing house «EKSMO» и ООО «Drofa»
- Buyer – ZAO «OLMA Media Group
- **Final price – RUB2,25bn**








- Agent – Bank of America Merrill Lynch
- Sale structure – secondary shares offering (local shares and GDR)
- Offering date – 11 February, 2011
- Stake – 10% minus 2 ordinary shares
- **Federal budget proceeds – RUB95,7bn.**

- **Offering price – 0.091468 roubles per share, \$6.25 per GDR (1 GDR=2000 shares, at Central Bank exchange rate of 29,26 RUB per 1USD)**
- The biggest transaction of the Russian share capital market in 2011
- Long-term investors made more than 30% of total demand
- Demand geography: Great Britain (42%), Europe (22%), USA (15%)

Total: two transactions

RUB98bn

# Largest 2012 Privatization Transactions

Company	Comments
 <p><b>(United Grain Company)</b></p>	<ul style="list-style-type: none"> <li>■ Agent – Troika Dialog</li> <li>■ Sale structure – rights issue through a private subscription (with the purpose of attracting a strategic investor)</li> <li>■ Stake – 50% minus 1 share of authorized capital</li> <li>■ Closing date – 4 September, 2012</li> </ul> <ul style="list-style-type: none"> <li>■ Buyer – Summa Group</li> <li>■ Transaction value – RUB5.95bn</li> </ul>
 <p><b>(APATIT)</b></p>	<ul style="list-style-type: none"> <li>■ Agent – BNP PARIBAS</li> <li>■ Sale structure – open tender to sell shares in a single block with a two-step bidding process</li> <li>■ Stake – 20% of ordinary shares</li> <li>■ Market value determined by an independent appraiser – RUB10.5bn</li> <li>■ Tender date – 4 September, 2012</li> </ul> <ul style="list-style-type: none"> <li>■ Tender participants – OAO Phosagro, NB TRUST OAO (out of six interested participants)</li> <li>■ Buyer – OAO Phosagro</li> <li>■ <b>Final price – RUB11.11bn (starting price RUB10.5bn); EV/EBITDA multiple (2012E) – 5.2x</b></li> </ul>
 <p><i>By your side</i></p>	<ul style="list-style-type: none"> <li>■ Bookrunners – Credit Suisse, Goldman Sachs International, J.P. Morgan, Morgan Stanley and Troika Dialog</li> <li>■ Sale structure – fully marketed secondary public offering</li> <li>■ Offering date – 18 September, 2012</li> <li>■ Stake – 7.58% of ordinary shares (1,712,994,999 shares, GDRs – 69%, Dollar shares – 21%, Rouble shares – 10%)</li> </ul> <ul style="list-style-type: none"> <li>■ Proceeds to the federal budget – RUB159.309bn</li> <li>■ <b>Offering price – 93 roubles per share and \$12.16 per GDR (at Central Bank exchange rate of 30.5876 RUB per 1 USD)</b></li> <li>■ Demand geography: USA (41%); Great Britain (37%); Russia (5%)</li> </ul>
 <p><b>(SG-Trans)</b></p>	<ul style="list-style-type: none"> <li>■ Agent – Renaissance Capital</li> <li>■ Sale structure – competitive selection of buyers for the single block of shares in a two-step bidding process</li> <li>■ Stake – 100% of the authorized capital</li> <li>■ Market value determined by an independent appraiser – RUB10.096bn</li> <li>■ Tender date – 27 September, 2012</li> </ul> <ul style="list-style-type: none"> <li>■ Tender participants – AFK Sistema, RusTransCom, Spetsenergotrans, TransEuroGas (out of 15 interested participants)</li> <li>■ Buyer – AFK Sistema</li> <li>■ <b>Final price – RUB22.770bn (starting price RUB10.096bn); EV/EBITDA multiple (2012E) – 12.8x</b></li> </ul>
	<ul style="list-style-type: none"> <li>■ Agent – Raiffeisen Investment</li> <li>■ Sale structure – open tender to sell shares in a single block with a two-step bidding process</li> <li>■ Stake – 25.5001% of the authorized capital</li> <li>■ Market value determined by an independent appraiser – RUB1.320bn</li> <li>■ Tender date – 29 October, 2012</li> </ul> <ul style="list-style-type: none"> <li>■ Tender participants – OAO SUEK and Alfa Capital Holdings (Cyprus) Limited Consortium, OAO Nomos-Bank and ZAO UC Universal Consortium</li> <li>■ Buyer – OAO SUEK and Alfa Capital Holdings (Cyprus) Consortium</li> <li>■ <b>Final price – RUB2.2bn (starting price RUB2.1bn); EV/EBITDA multiple (2011) – 9.5x</b></li> </ul>

Total: five transactions

RUB201,3bn

# Largest 2013 Privatization Transactions

## Company

## Comments



VANINO COMMERCIAL SEA PORT

- Agent – Raiffeisen Investment
- Sale structure – open tender to sell shares in a single block with a two-step bidding process
- Stake – 25.5001% of ordinary shares
- Market value determined by an independent appraiser – RUB1.320bn
- Tender date – 29 October, 2012
- Tender participants – OAO SUEK and Alfa Capital Holdings (Cyprus) Limited Consortium, OAO Nomos-Bank and ZAO UC Universal Consortium
- Buyer – OAO SUEK and Alfa Capital Holdings (Cyprus) Consortium
- **Final price – RUB2.2bn (starting price of RUB2.1bn); EV/EBITDA multiple (2011) – 9.5x**



- Consultants – Bank of America Merrill Lynch, Citi Bank
- Sale structure – direct sale of JSC Rosneft 5,66% shares belonging to JSC Rosneftegaz within an asset swap
- **Sale price – RUB 148bn**
- The gained money is transferred on balance of JSC Rosneftegaz (sole shareholder is the Russian Federation)
- JSC Rosneft is one of the world's largest oil companies. 2012 Revenue – 3,078 trillion rub (IFRS), net profit – 342 billion rubles.



- Organizers – JSC VTB Capital, Citigroup, J.P. Morgan, Bank of America Merrill Lynch
- Sale structure – additional share issue by an open subscription
- The Russian Federation share in authorized capital was reduced from 75,5% to 60,9%
- Tender date – 26 April, 2013
- **Sale price – RUB102,5bn (RUB0,041 per share)**
- All proceeds were directed on additional capitalization JSC VTB Bank



- Agent – VTB Capital
- Sale structure – open tender to sell shares in a single block with a two-step bidding process
- Stake – 25,09% of ordinary shares
- Market value determined by an independent appraiser – RUB1,050bn
- Tender date – 12 April, 2013
- Tender participants – JSC «TGK-9»
- Buyer – JSC «TGK 9»
- **Final price – RUB1,080bn**



(Siberia Airlines)

- Agent – Alfa Bank
- Sale structure – open tender to sell shares in a single block with a two-step bidding process
- Stake – 25,5% (26 126 ordinary shares)
- Market value determined by an independent appraiser – RUB1,118 bn. (starting price – RUB1,122 bn)
- Tender date – 30 May, 2013
- Tender participants – ZAO «S7 Group», OOO «Evrofinansy-Nedvizhimost» и OOO «Fondovye Strategicheskie Initsiativy»
- Buyer – ZAO «S7 Group»
- **Final price – RUB1,133bn**











- Agent – Goldman Sachs
- Sale structure – IPO on the Moscow Exchange in accordance with international standards
- Placement date – 28 October 2013
- Stake – 7% of ordinary shares
- **Sale price – RUB 18bn (RUB41bn + 7% Sakha Republic (Yakutia) and 2% treasury stocks)**
- **Offering price – RUB35**
- The largest Russian issuer IPO in 2013 and the largest IPO of local shares at the Moscow exchange for all history of the Russian stock market

Total: six transactions












RUB286,4bn

# Largest 2014 Privatization Transactions

	Company	Stake %	Transaction Type	Transaction Parameters	Key Highlights
In progress	 <b>INTER RAOUES</b> energy without borders	▪ 13,8%	▪ M&A	<ul style="list-style-type: none"> <li>▪ Optimization of the shareholder structure</li> <li>▪ Sale of federal equity stake to JSC Rosneftgaz for RUB18,8 bn.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The leader of production and trading market of electrical and thermal power</li> <li>▪ 2012 Revenue (IFRS) – RUB556 bn, net loss – RUB26,7 bn</li> </ul>
	 <b>(Arkhangelsk Trawl Fleet)</b>	▪ 100%	▪ M&A	<ul style="list-style-type: none"> <li>▪ Sale to strategic investor</li> <li>▪ Stake – 100%</li> <li>▪ Buyer – OOO «Virma» (affiliate with Northwest fishing consortium)</li> <li>▪ Final sale price – RUB2,2 bn.</li> </ul>	<ul style="list-style-type: none"> <li>▪ OOO «Virma» signed the shareholders agreement with the Government of the Arkhangelsk region, for protection of Arkhangelsk region interests</li> <li>▪ OOO «Virma» is one of the largest fishing companies of the Russian Federation</li> <li>▪ 2012 revenue – RUB3.4bn, net profit – RUB33m (RAS)</li> </ul>
Underway	 <b>Rostelecom</b>	▪ 43,07% of the authorized capital (46,99% ordinary shares)	▪ M&A/ECM	<ul style="list-style-type: none"> <li>▪ Russian Federation Ministry of Economic Agent – Sberbank CIB</li> </ul>	<ul style="list-style-type: none"> <li>▪ The national telecommunication company and the largest universal communications operator in Russia, linking more than 100 million subscriber in 80 regions of the Russian Federation.</li> </ul>
	 <b>SCF</b> Sovcomflot	▪ 25% minus 1 share	▪ ECM	<ul style="list-style-type: none"> <li>▪ Agent – Deutsche Bank</li> <li>▪ Public offering shares</li> <li>▪ 50% – primary shares</li> </ul>	<ul style="list-style-type: none"> <li>▪ One of the world's largest fleet (158 vessels with total DWT – 12mt)</li> <li>▪ 2012 revenue – \$860 m, net profit – \$33 m</li> </ul>
		▪ 20%	▪ M&A/ECM	<ul style="list-style-type: none"> <li>▪ Agent – UBS Bank</li> <li>▪ Underway</li> </ul>	<ul style="list-style-type: none"> <li>▪ Leading Russian port operator, third largest port operator in Europe</li> <li>▪ 2012 revenue – RUB321 bn, net-profit - RUB35,2 bn</li> </ul>
	 <b>AEROFLOT</b> Russian Airlines	▪ 1,17%	▪ ECM	<ul style="list-style-type: none"> <li>▪ Reducing of the Russian Federation stake from 51.17% to 50% plus 1 share</li> <li>▪ Public offering on Moscow Exchange</li> <li>▪ Simultaneous with treasury shares sale (4,66%) and (optionally) Rostekh Group stake (3,55%)</li> </ul>	<ul style="list-style-type: none"> <li>▪ The largest Russian airlines with one of the most modern aircraft fleet in Europe</li> <li>▪ 2012 revenue – RUB178 bn, net profit – RUB4,9 bn</li> </ul>
		▪ 20-30%	▪ Private placement	<ul style="list-style-type: none"> <li>▪ Private offering among financial investors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Vertically integrated agricultural holding company, includes all elements of the value-creation chain, from grain storage to the sale of the processed products</li> </ul>
	 <b>Transneft</b>	▪ 3,1%	▪ ECM	<ul style="list-style-type: none"> <li>▪ Reduction of the Russian Federation stake to 75%+1 share</li> <li>▪ Public offering on Moscow Exchange</li> </ul>	<ul style="list-style-type: none"> <li>▪ The world largest operator of oil and oil products</li> <li>▪ 2012 revenue – RUB732 bn, EBITDA RUB323 bn, net-profit – RUB184 bn</li> </ul>











# Largest Companies Privatization Plan for 2014 – 2016

	COMPANY	CURRENT RF STAKE	PRIVATIZATION PLAN
<b>FINANCIAL INSTITUTIONS</b>			
	VTB BANK	60.09%	Reduction of equity stake of the Russian Federation to 50 per cent plus 1 share
<b>TRANSPORT</b>			
	SOVCOMFLOT	100%	Reduction of equity stake of the Russian Federation to 25 per cent plus 1 share
	AEROFLOT	51.17%	Reduction of equity stake of the Russian Federation to 25 per cent plus 1 share
	RUSSIAN RAILWAYS	100%	Reduction of equity stake of the Russian Federation to 75 per cent plus 1 share
	SHEREMETYEVO	83.4%	Full withdraw from the authorized capital based on decisions of the Russian Federation President and Government in respect of the strategic development of the Moscow aviation hub
	VNUKOVO AIRPORTS	74.7% 25%+1 <sup>1</sup>	
	STLC	100%	Reduction of equity stake of the Russian Federation to 75 per cent plus 1 share
<b>UTILITIES</b>			
	RUSHYDRO	67%	Reduction of equity stake of the Russian Federation to 50 per cent plus 1 share
	ROSNEFT	69.5% (held by Rosneftegaz)	Reduction of equity stake of the Russian Federation to 50 per cent plus 1 share
	AK TRANSNEFT	78.3%	Reduction of equity stake of the Russian Federation to 75 per cent plus 1 share
	ZARUBEZHNEFT	100% <sup>2</sup>	Reduction of equity stake of the Russian Federation to 90 per cent, and subsequently to 50 per cent plus 1 share

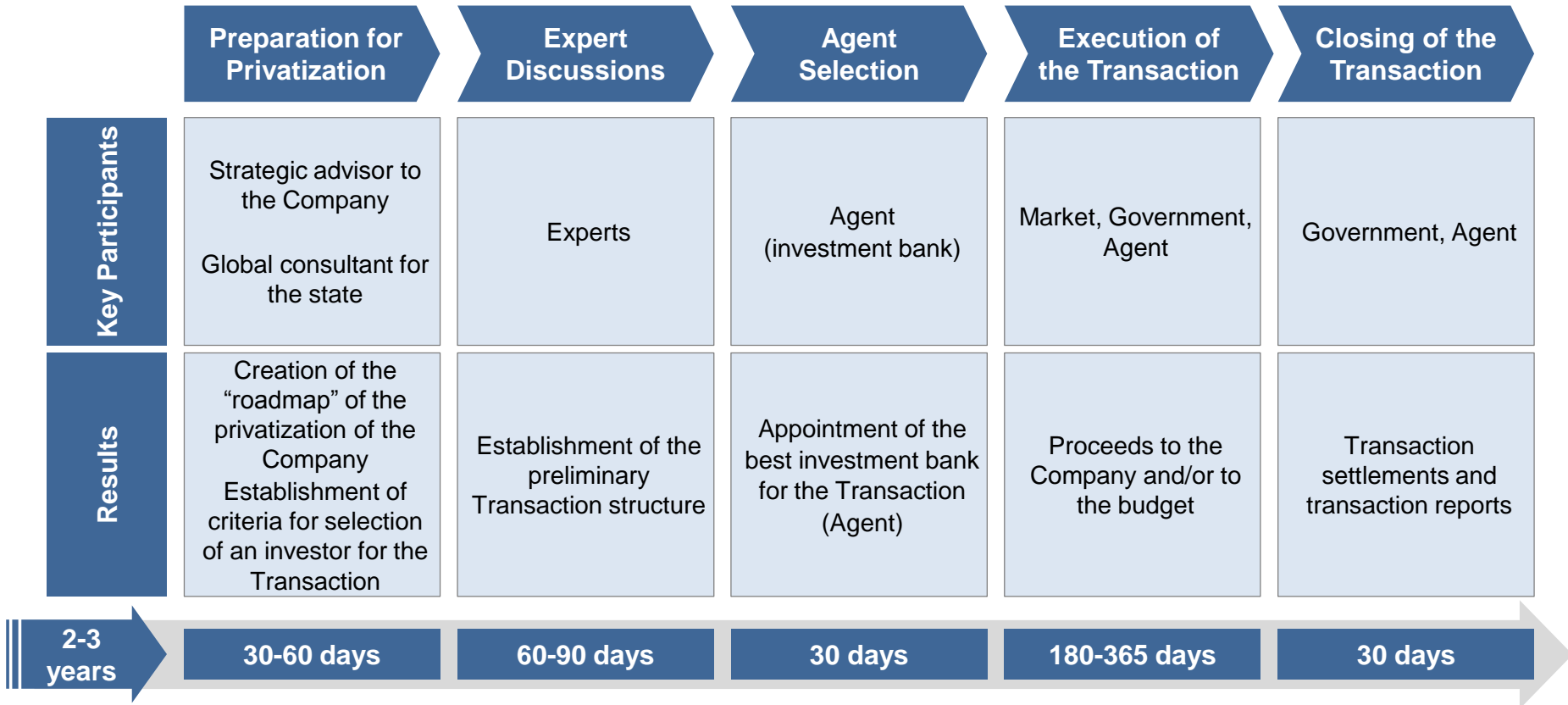
(1) The Federal agency for public property (Rosimushchestvo) has a 74.7% stake in OAO Vnukovo Airport and a 25% stake in OAO Vnukovo International Airport

(2) Taking into account provisions of Inter-Governmental Agreements

# Largest Companies Privatization Plan for 2014 – 2016

	COMPANY	CURRENT RF STAKE	PRIVATIZATION PLAN
<b>INDUSTRIALS</b>			
	AK ALROSA	43.9%	Reduction of equity stake to 25 per cent plus 1 share, with coordination of the sale of shares owned by the Sakha Republic (Yakutia)
	URALVAGONZAVOD	100%	Reduction of equity stake to 75 per cent plus 1 share
	United Aircraft Corporation	83%	Reduction of equity stake to 50 per cent plus 1 share by 2024
	United Shipbuilding Company	100%	Reduction of equity stake to 75 per cent plus 1 share by 2024
	ROSSPIRTPROM	100%	Full withdraw from the authorized capital
<b>AGRICULTURE</b>			
	United Grain Company	50% + 1	Full withdraw from the authorized capital
<b>TELECOMMUNICATIONS</b>			
	ROSTELECOM	43,07%	Full withdraw from the authorized capital
<b>SCIENCE / INNOVATION</b>			
	RUSNANO	100%	Full withdraw from the authorized capital

# Key Stages in the Privatization of the Largest Companies



## ECM Transaction Specifics

- Shares offering on the Moscow Exchange
- Drafting of offering circular and roadshow in accordance with best international standards

## M&A Transaction Specifics

- Eligibility criteria for privatization participants in order to select a quality investor
- Mechanism for securing payment for the asset being sold (bank guarantee, security deposit, etc.)

# Underlying Principles of Largest Companies Privatization

## Principle

## Comments

### Publicity

- Mandatory publication of information about the process on the Agent's web site and broad media coverage
- Distribution of privatization process materials to a wide range of potential investors
- Regular communication between the Agent and potential investors

### Competitiveness

- Widest range of investor targeting: an opportunity to participate in the privatization process is offered to all investors who match the qualifying requirements
- Foreign investors may also participate in the process upon conditions of obtaining required permits and approvals

### Transparency

- Equal access to information about privatization process for all interested parties matching the qualifying requirements
- Transparent buyer selection procedure

### Starting Price

- The initial sale price in each deal is set at a level that is not lower than the pre-transaction market value determined by an independent appraiser and a qualified SRO (self-regulatory organization)
- With appropriate justification from the Agent (based on the anticipated level of competition, control premium, preliminary bids, etc.), the starting price may exceed the appraiser's asset valuation