

STATE UNIVERSITY – THE HIGHER SCHOOL OF ECONOMICS
St.-Petersburg branch

Faculty of economics
Department of financial markets and financial management

MERGERS AND ACQUISITIONS
Syllabus of the Course

Developed by Elena Rogova, Professor, Dr. of Economics

St.-Petersburg,

The course description

Mergers and acquisitions in recent years have become one of the notable trends of Russian economy. In the years 2001-2005, Russian market of mergers and acquisitions has increased in value almost 5-fold (from USD 12.2 billion to USD 59.7 billion), while in 2008 only in the second quarter, the volume of mergers and acquisitions had reached USD 52.8 billion. The share of mergers and acquisitions is approximately 5,5% of gross domestic product, which is comparable with the volume of foreign direct investments into Russian economy.

According to experts the agency AT Kearney - the creator of the wide-known theory of evolution of industries – the best dynamics of an industry is at a stage of intense consolidation, and this is the reason that the companies in those industries are attractive for the acquisitions. These companies show better rate on returns, which leads to an increase in stock price because investors, first of all, are buying the opportunities of growth. Thus, the dynamics of M & A market in Russia was one of the catalysts of high rates of economic growth. Although the crisis of financial markets has declined significantly the volume and value of deals in mergers and acquisitions, they are still regarded as one of the most effective strategies for the development of companies.

The market leaders usually consider mergers and acquisitions as a key growth strategy which may be alternative to organic growth, and combined with it. As the competition in most sectors of Russia's market still leaves place for consolidation, for many Russian companies mergers and acquisitions may be a path to increase the market value, attract investments, increase sales and market share, access to new technologies and achieve other competitive advantages.

However, statistic data show that mergers and acquisitions often do not let companies to reach the results expected. According to KPMG, only 34% of mergers have increased the cost of business, only 20% of companies have reached some of their objectives in the process of mergers and acquisitions. 57% new companies (founded after merging) are lagging behind their competitors, and in 61% of cases, shareholders suffered losses due to the fact that investments in mergers and acquisitions are not paid off. In Russia, the problem is deepened by such factors as the youth of the market and its inefficiency, imperfect legislation, a large number of illegal (or technically legal, but carried out by an illegal, uncivilized ways) acquisitions - "raider attacks" of corporate takeovers and wars.

Thus, the success of mergers and acquisitions is the result of hard work, taking a lot of knowledge and skills in preparation of such transactions, their accounting, valuation, and integration of companies after mergers. It requires consideration of many factors - organizational

and financial structure, business processes, corporate culture to ensure that this activity was indeed successful.

In terms of theory and practice we should identify several issues of mergers and acquisitions:

finance - financial analysis of companies, valuation of acquisitions and the search of optimal methods of financing and payment, evaluating of the effectiveness of the acquisitions, the identification of operational and financial synergies, etc.;

accounting - taking into account the assets and liabilities of the target companies and the new ones the formation of the consolidated balance sheet, statement to the balance of intangible assets (goodwill), the use of tax benefits, etc.;

managerial aspect - the selection of targets, the preparation and conduction of the transaction, the integration of the companies after the formal deal closing, increasing market potential, the defense from hostile takeovers etc.

These issues make the subject of the course.

Currently, this course is a part of the 5-years program of learning for the students who study finance. It is also included in the curriculum of the second year of the Master program in Management (Program "Financial Management"). However, the possible audience may be wider. From international experience we know that this discipline is a special section of financial management. In Russia, the discipline has been read as the retraining programs in "Financial Management" (Graduate School of Management), as well as some of its aspects were read in the various training workshops, scientific and methodical seminars. The foreign students may be also interested in the Russian view at the subject of this course.

SYLLABUS OF THE COURSE

MERGERS AND ACQUISITIONS

Course description

Course title:	Mergers and acquisitions
Programme:	Master programme, 2nd year
Course status:	optional
Instructors:	Elena Rogova , Professor, Doctor of Sc. (Economics)
Duration:	1-2 modules
Course weight:	3 ECTS
Hours volume:	28 class hours (lectures – 14 hours, seminars – 14 hours)
Assessment:	Testing, case analysis, writing an essay and its presentation

The course is one of the optional courses for the students of the Master program “Financial management”.

The course is aimed at the better understanding of companies’ motives to merge and acquire the others, it also provides the students with the methodology of valuation and the principles integration of companies in the processes of mergers and acquisitions.

Course objectives

- to make clear the importance of mergers and acquisitions in the terms of the company’s value;
- To show the ways of capturing the value drivers through mergers and acquisitions;
- To give some skills in evaluation of target companies and the deals value;
- To help the managers with financial sources for mergers and acquisitions
- To show innovative financial decisions in the deals of mergers and acquisitions;
- To find the ways of value growth through integration of merging companies;
- To give some ideas about the defense strategies in the cases of the hostile takeovers attempts.

It is supposed that the students after learning the course would acquire the following competencies:

The knowledge of:

The basic principles of valuation of mergers and acquisitions, the sources of synergies, the types of risks inherent in this type of activity, the main methods of financing mergers and acquisitions and methods of protection against hostile takeovers.

The ability:

To analyze mergers and acquisitions of various types, to determine the degree of the optimal structure of such transactions, to choose methods for deals’ funding, to determine the sources of

synergies and the risks of mergers and acquisitions, to compose consolidated balance of the merged company.

The skills:

Work with existing accounting, the evaluation of investment projects, mergers and acquisitions, the decision-making in respect of assets and sources of commercial organization.

Course pre-requisites

Strategic management, Corporate finance, Valuation of business, Investments analysis, Stock markets, Financial accounting, International Standards of Financial Reporting.

Course structure

Course is composed with lectures, tutorials, seminars, case studies, group work. It also require a great deal of work the students should fulfill at home.

Course assessment

The course assessment consists of three parts:

The students' individual and group work at the seminars and tutorials in the form of case analysis, presentations, problems solving etc.

The essay home writing and its presentation at the classes.

The written test combined with the analysis of a test case.

The total amount that a student may earn is 100 points. The final score is the sum of accumulated points for a student common activity at the seminars and set-off of them:

- The class work weights 30 points;
- The essay in the light of his presentation weights 30 points;
- The test weights 40 points.

Distribution of hours

Parts of the course	Face-to-face meetings			Home work	Total ly
	Lectures	Tutorial s	Gene rally		
1. Mergers and acquisitions as a part of strategic development of a company: motives, benefits, risks	2	2	4	16	10
2. Valuation of M&A effectiveness	4	2	6	16	12
3. Organization of mergers and acquisitions	2	4	6	16	12
4. Hostile Acquisitions	4	4	8	16	12
5. Methods of funding the deals connected with mergers and acquisitions	2	2	4	16	8
Total volume of hours	14	14	28	80	54

Course Content

Lecture 1. Mergers and acquisitions as a part of strategic development of a company: motives, benefits, risks (2 hours)

The concept of mergers and acquisitions (M&A). Criteria of definition of M&A deals. M&A in the Russian legislation (specific features): the forms of reorganization of legal entities. Classification of mergers and acquisitions: the acquisition of control, the degree of control, way of integration, attitude to the target company. Basic requirements for the legal viability of mergers and acquisitions.

The M&A market: the cycles of development, distribution by countries and sectors of economy. Russian market of mergers and acquisitions: the stages of development, performance, specific features. MARX indexes.

The main objectives and motives of mergers and acquisitions: operational, financial, investments, strategic and specific objectives.

Lecture 2. Valuation of M&A effectiveness (4 hours)

The concept of synergy. Operational and financial synergic effects. Types of operating synergies. Types of financial synergies.

Valuation of the company in the process and after the merger / takeover. The impact of M&As at the performance of the company: market capitalization, book value, earnings per share, economic value added. Determining the intrinsic value of the target company. Forms of payment in mergers and

acquisitions: payment in cash vs payment of shares. Advantages and disadvantages of different forms of payment, and their impact at the effectiveness of mergers and acquisitions. Options to purchase shares.

Evaluation of the effects of mergers and acquisitions (economies of scale, tax revenues, lower cost of capital). "Pitfalls of growth" and their assessment.

Formation of the consolidated balance sheet of the company after the merger / takeover. Reflection of mergers and acquisitions in various financial reporting standards. Accounting for intangible assets (goodwill) by the purchase method and pooling method packages.

Effect of mergers and acquisitions in the tax burden of companies. M&A impacts on the dividend policy of the company.

Lecture 3. Organization of mergers and acquisitions (2 hours)

The goals which the company puts in the process of mergers and acquisitions. The main procedures of mergers and acquisitions. The role of investment banks in organization of the deals of mergers and acquisitions.

Creating value through mergers and acquisitions. "Pyramid" of a value creating by McKinsey and its application in Russia.

Integration of companies in mergers and acquisitions. Compatibility issues of production, financial, organizational structure, personnel, organizational culture. The reasons for failures of mergers and acquisitions. Basic principles of integration.

Lecture 4. Hostile Acquisitions (4 hours)

Criteria of the determination of hostile takeovers. The causes of hostile takeovers. Impact of hostile takeovers on the performance of the company, its market costs. The theory of "performance management". Costs of hostile takeovers.

Methods of protection against hostile takeovers. Classification of methods. Preventive methods. Legal methods. Possibilities of methods of protection in the growing post-age conditions.

Government efforts aimed at combating the illegal seizure of enterprises-appropriate interventions. Protecting the interests of investors in privatization transactions. Protection of minor shareholders interests.

Lecture 5. Methods of funding the deals connected with mergers and acquisitions (2 hours)

Funding from retained earnings and its effect on the shareholders' interests. Funding from the new (additional) emission. Raising funds through initial public offering (IPO) and through private placement. Funding from credit sources and loans. Mezzanine funding. The applications of mixed methods of financing and financial engineering.

Joint ventures and strategic alliances as an alternative to mergers and absorption.

Features of MBO and redemption of the company on credit (LBO). Effects of MBO and LBO and their effectiveness. The motives of managers. The procedure for redemption and its relationship with the dividend policy of the company. The Russian ways of MBO.

A SAMPLE PLAN OF TUTORIALS

Tutorial 1. Mergers and acquisitions as a part of strategic development of a company: motives, benefits, risks (2 hours)

The discussion on the main aspects of the definition of mergers and acquisitions, criteria of deals consideration as mergers / acquisitions, special issues of the restructuring of enterprises in Russia, singularities of Russian market of mergers and acquisitions. For the practical part, students are invited to fulfill a mini-case related to the definition of such transactions, its potential benefits and potential risks. The material is based upon the real mergers and acquisitions or transactions that would take place in the near future (based on the media information). Example of a mini-case study and its solution is given in Annex 1.

Tutorial 2. Valuation of M&A effectiveness (2 hours)

We discuss the concept of synergy, the various sources and types of synergy, which can be obtained in various transactions in M&A.

We consider the concept of project performance of M & A targets, indicators that can be considered as performance criteria (synergy, net present value, earnings per share, market value stocks, etc.). We try to apply different approaches to assessing the target company: market multiples and cash flows valuation approach.

We also solve the problems of assessing the effectiveness of mergers and acquisitions. The examples of such problems are given in Annex 2.

The problem of payment of the merger (acquisition) - in cash or by exchange of shares. Solve problems related to choice of payment method.

As an independent work of students are invited to read and learn section of the book by *W. Buffett's "Essay on investments, corporate finance and corporate governance" (Part V «Mergers and Acquisitions»¹)*. This part of one of the most of known and successful contemporary investors can get an idea of the ruling of alternative theories of financial management look at the merger and absorption, and their effectiveness, how they pay and the levels of corporate control.

¹ Баффет У. Эссе об инвестициях, корпоративных финансах и управлении компаниями / Уоррен Баффет; сост., авт. предисл. Лоренс Каннингем; пер. с англ. – 2-е изд.; М.: Альпина Бизнес Букс, 2006. – 268 с. – с. 169-194.

Tutorial 3. Organization of mergers and acquisitions (4 hours)

Meet the challenges of drawing up the consolidated balance sheet of the new company in accordance with different methods and financial reporting standards (Annex 2).

The problems of integrating the companies, the principles on which such integration is based upon. As a basis for discussion, you can use "principles of successful integration of the company's" Perekrestok "(currently - X5 Retail Group), listed in Annex 3.

We discuss the problem of creating a unified organizational culture, the organizational structure and leadership style by. To construct the debate can take the materials published by the media, for example, the magazine "The Secret of the company.

Also useful for the construction of the discussion will be chapter 14 of the book by *T. Copeland, T. Koller and J. Murrin " Valuation: Measuring and Managing the Value of Companies"*², giving representation of the procedures that accompany merger/acquisition and subsequent integration of companies. This material, as well as some material from the magazine "Herald of McKinsey» is proposed for self-learning.

Tutorial 4. Hostile Acquisitions (4 hours)

We discuss the signs of unfriendly (hostile) takeovers, their differences from the friendly one, the criteria for consideration a transaction as a friendly or hostile takeover.

Methods of protection against hostile takeovers, the possibility of their application in a certain cases, their impact on the value of companies are to be discussed.

We consider the possibility of applying methods of protection against hostile takeovers in the Russian business environment. As an example of a successful company's attempts to confront a hostile takeover could result in company strategies Ilim Pulp International (Annex 4) or other examples.

In the same subject should consider possible conflicts between majority and minority shareholders, which may affect the mergers and acquisitions, in dependence on the levels of corporate control (Annex 5).

As an assignment for self-study students are supposed to make out case for the unification brewing companies based Baltika Brewery and transferring them into a single share. Initial data for the case study are given in annex 6.

Tutorial 5. Methods of funding the deals connected with mergers and acquisitions (2 hours)

The advantages and disadvantages of different sources of financing of mergers and acquisitions: retained earnings, new issue, loan you finance.

² McKinsey&Company; T. Copeland, T. Koller, M. Goedhart, D. Wessels. Valuation: Measuring and Managing the Value of Companies. 4th Edition. John Wiley and Sons, New Jersey, 2005.

We discuss the particular redemption of the company managers (MBO) and redemption of the company on credit (LBO), their effectiveness, the motives of managers, and the possibilities and limitations of application procedures for redemption in the Russian context.

As a practical part of the proposed solution of the problems associated with various forms of financing of mergers and acquisitions, their impact on the performance of companies (Annex 2).

We consider joint ventures and strategic alliances as alternatives to mergers and acquisitions.

As an assignment for self-study work is proposed to section 6 of the book by *S.V. Gardin and I.N. Chekunov "Financing of mergers and acquisitions in Russia"*³, which investigates the basic mechanisms of modern finance in Russia market mergers and acquisitions.

THE REQUIREMENTS FOR CONTENT AND DESIGN OF THE ESSAY

Essays should be devoted to a particular merger or acquisition, which have taken place (or should be held) in Russia or abroad. A sector of the economy, year, time-steps of the transaction do not matter. The essay should highlight the following aspects of the merger:

- Motives of the merger;
- Position of enterprises prior to the merger;
- Type of merger (absorption) - described by all the classification criteria discussed at the lectures;
- Gain (loss) from the confluence with the absorbing and the absorbed company;
- The possible effects of the merger;
- The impact of mergers on price and dividend policies of companies;
- Mechanism of the merger;
- Method of financing the merger;
- Procedures for the integration after the merger;
- The barriers and their ways of managing with;
- Possible development strategy for the company after the merger.

As a basis for writing the essay, in addition to the recommended bibliographic sources, the materials published in the media sources can be used, as well as information from the web sites of investment companies, agencies and enterprises, appropriate interventions, located in the open access.

A compulsory element of the essay is a PowerPoint presentation, reflecting the main provisions of the essay. Presentations are to be made during the tutorials lessons and are an object of discussions with students and teacher.

In the preparation of essays and presentations can participate groups consisted of 2-3 people. The volume of essays - 20-25 pages, its design must meet the requirements usually instituted comes to

³ Гвардин С.В., Чекун И.Н. Финансирование слияний и поглощений в России / \С.В. Гвардин, И.Н. Чекун. – М.: БИНОМ. Лаборатория знаний, 2006. – 195 с. – с. 177-184.

controlling work of students (the presence of a title page, contents, introduction, conclusion, bibliography, if necessary - applications). Duration of presentations on practical work is 10-15 minutes.

The presence of independent conclusions and suggestions is welcome.

The example of presentation is in the Reader.

THE FINAL EVALUATION

As mentioned above, the final control is carried out in the form of a combination of written test and a case analysis.

The test contains open-ended questions and questions with the choice opportunities.

A case is based on specific merger (absorption) and is based on lecture materials.

THE READING MATERIALS

1. Core textbook

Richard A. Brealey, Stewart C. Myers. Principles of Corporate Finance. 7th Edition. McGrawHill, 2003.

2. Basic books:

Ignatishin Y. Sliyaniya I poglosheniya: strategiya, taktika, finansy. Spb.: Piter, 2005.

McKinsey&Company; T. Copeland, T. Koller, M. Goedhart, D. Wessels. Valuation: Measuring and Managing the Value of Companies. 4th Edition. John Wiley and Sons, New Jersey, 2005.

Rudyk N.B. Metody zashity ot vrazhdebnogo poglosheniya. M.: Delo. 2006.

Vachon D. Mergers and Acquisitions. Riverhead, 2007

3. Web sites

<http://www.mergers.ru>

<http://ma-journal.ru>

<http://www.cfin.ru>

<http://www.gaap.ru>

<http://www.zahvat.ru>

<http://www.management.com.ua>.

<http://www.themanager.org>

Also the reading list is presented in the Reader.

Appendix 1. Mini-Case

Russian steel company Evraz Group has acquired the world's largest producer of vanadium alloys - company Strategic Minerals Corporation (Stratcor), paying for 73% shares of 110 million dollars.

Stratcor produces vanadium alloys for steel, chemical, and titanium industries. The company has two main production units: Stratcor Inc. (40% of world production of vanadium alloys) and Vametco Minerals Corporation (with mines and factories in South Africa, 5% of world production of vanadium feedstock).

The share which is part of Evraz Group Nizhnetagilsky metkombinata (NMTK) account for 21% of the total world production of primary vanadium as related material in steel production (the so-called vanadium slag). NMTK traditionally supplied the vanadium slag processing plant in Russia "Vanadium-Tula", as well as the Chinese producers. Now, buying Stratcor, «Evraz will be able to process Nizhny Tagil slag alone.

The idea of self-processing of raw materials holding long harbored. Vanadium production is supposed to establish, for example, is part of a group Nizhnesaldinskoy Metallurgical Plant. Now, after the inclusion Stratcor in the "Evraz Group, the supply of vanadium slag NMTK can be completely redirected to the U.S.. This, of course, will help Evraz to take a leading role in world production of vanadium alloys and increase the attractiveness of the group as a whole. However, in this case, the products of deeper re-allotment will be made outside our country. In addition, the main processor of vanadium slag, "Vanadium-Tula", may be left without raw. However, in "Vanadium-Tula" These fears are not confirmed. It is possible that Evraz has already negotiated the purchase and the asset.

"Expert", February 26, 2006

Questions:

1. Determine the type of absorption, depending on various criteria (the ratio of management, the type of control, mode of acquisition of control, the direction of consolidation).
2. Identify the main benefits of the absorption in the absorbing company and the target company.
3. Describe the possible types of risks associated with this transaction.

Appendix 2. Examples of tasks

1. Company A is considering a takeover of firm B, which works similar to a sphere of activity. Currently, cash flow amounts to 2 million in DE year. It is expected that the merger synergies arise, which will increase cash flow by 15% per year for 10 years. To maintain the company's cash flows but will require 1 million to invest DE year. Based on the analytical objectives and considerations of conservatism but limited their calculations of cash flows over 25 years.

What is the expected level of cash flows after 10 years, but is going to realize as a result of absorption?

If the required rate of return is equal to 18%, what is the maximum price that the company may pay for the takeover?

Possible answers:

A) 8.2533 billion DE, 19666, DE 6 million;

B) 7.0911 billion DE, 18334, DE 4 million;

C) DE 8.0911 billion, 25 million DE

2. A company A intends to make an offer to acquire company B. Company B share capital consists of 100,000 shares, the yield of one share is equal to 5,50 DE. If the company has teamed up with In A, would have been received total savings of \$ 1.5 million DE. Currently, the market price of shares in - 55 AE. Company A makes a proposal to acquire a double: from 65 DE per share for the first acquired 50001 shares and 50 DE per share - for the remaining shares.

If the merger is successful, what will be the final volume of payments of company A? How will the shareholders of Company B be affected by the economy?

Operating independently, that will make each shareholder to maximize your wealth? What they could achieve if it were made collectively, as a cartel?

As a company B may increase the likelihood that shareholders would be too cheap to resist the proposed acquisition of shares?

What would happen if company A proposed purchase of shares in 65 DE the first part of the shares and 40 DE - For the second?

3. Company A buys company in. The cost of the companies as independent units is equal to 20 million DE and 10 million DE respectively. According to company A, the merger would reduce the cost of marketing and general management of the 500 thousand DE per year over a long period of time. A company may buy the company in over 14 million AE. with payment in cash, or offer in exchange for shares in 50% of own shares. The rate of opportunity cost is 10%.

What are the benefits of this takeover?

What are the costs of absorption, if it is carried out in cash? What are the net costs of absorption in the case of a share swap?

What is the net present value of the transaction in case of payment in cash?

What is the net present value of the absorption through the exchange of shares?

Appendix 3. "Iron rules" of successful acquisitions (by the trading house "Perekrestok")

1. The deal must start with an assessment of business, and by explaining the objectives of the shareholders of this business, determining the future structure of shareholders, control and develop mechanisms out of business.
2. If the purchase does not fit the strategy and format of the main business of it is to give, regardless of financial conditions.
3. Necessary point before the negotiations is to define a "point of failure" on all major items of the negotiations.
4. In assessing the synergies in the financial model of future cash flows of the company bought only those indicators that can be properly assessed, monitored, to consider and reach. In addition, you must realistically calculate the costs of integration.
5. Good deal with a bad partner is a bad deal.
6. During the negotiations and deal with each side must meet the same people.
7. There is no need to save time and resources to verify the integrity and solvency of the partner (due diligence) and elaboration of documents of the transaction.
8. There is no need to publicly announce the deal until its completion.
9. Plan integration and transition of control from one business to another owner should be prepared before the end of the transaction: the signing of documents every manager on both sides should know how to operate it.
10. Do not rush to change all the processes in the acquired company "under him".

Annex 4. Protection from hostile takeovers: "Basic Element" against Ilim Pulp Enterprise "[

The war for the possession of the most profitable shares of Russia's timber industry complex - pulp mill - between companies, Basic Element (Basic Element) and Ilim Pulp Enterprise (IPE) has become a striking example of modern corporate wars in Russia, claiming to enter the textbooks as a model scheme for hostile takeovers and control.

First, the war between IPE and Basic Element was actually the first conflict of this scale - the attempt to take over virtually the entire industry. Secondly, the first time in the history of modern Russia in the conflict of such magnitude the defending side managed by staying exclusively in the legal field, to defend their interests. Thirdly, it was a clash in the industry, which is of strategic importance, but because of that, whose position will support the state, depended a lot. Fourthly, it was a situation in which, in concentrated form my scheme of large-scale acquisitions and methods of combating.

Interest in "Siberian Aluminum" (in "Basic Element company has been reorganized in late 2001) to the forest industry did not arise by accident. Falling prices for aluminum in 2001, once again persuaded the owner Sibal O. Deripaska in the need to acquire new business, the ROI is not inferior to aluminum. Specialists Sibal interested in forest industry, has the following advantages: replenished raw materials, good production capacity, especially in the development of cellulose, the ever-growing demand for these products.

Of course, certain limitations existed - in the lumber industry has already acted powerful companies, local and international, are known for their financial and lobbying capabilities or have an unblemished reputation in world markets. But their main business was connected with the mills which produce paper. Intrude into this area was very difficult, and leadership Sibal decides to develop a plan for absorption of enterprises producing pulp and packaging materials.

Schematic diagram of the entry into the timber complex, developed in "Sibal", as follows. The first stage is acquired ally in fairly large company professionally engaged in forest and wood processing. Then its assets joins one or more key pulp and paper complex. Simultaneously, further expanding the resource base (through the purchase of forestry enterprises). Then continue the planned acquisition of processing plants. Sales of products through existing company.

The objects of absorption were selected enterprises owned by Ilim Pulp Enterprise ". By the beginning of the conflict she owned stakes in these enterprises: OAO Kotlas PPM " - 51,08%, OAO Bratskkomleksholding" - 37,52%, NPF "St. Petersburg" - 100%, JSC "Newcomb" - 88.64%, OOO "InYure" - 70% OOO "OP" ILIM " - 70%, JSC" Information Agency "ArhYugInform" - 51%, ZAO Ilim Pulp Siberia " - 100%, JSC" Alliance Inform " - 35%, OOO" Ilim Pulp Exim - 100% LLC Ilim Pulp Trading - 100% LLC Ilim Pulp Korjzhma " - 100%, OOO" Kasmets Happiness " - 100%, JSC "Cosmos" - 78%, JSC "Complex" - 41,06%, JSC "Vel'skii KLP" - 27,4%, JSC "Tegrinsky LPH" - 31.92%, OAO Shonoshsky LPH " - 51.34 %, OAO Litvinovsky LPH " - 36,44%, OAO Erogodsky LPH" - 20,79%,

OOO "Togral" - 32%. Under their control was still a number of companies - St. Petersburg Cardboard and Printing Mill, Paper Mill Kommunar, 28 logging companies, trading company PetroBoard Trading, Logistics Company "Fintrans, firm Kommunarvtoresursy (harvesting waste paper) Czech factory Pilsen Papirnya.

Preparations for the beginning of the absorption of the plant was quite fast. As an ally, was the company "Continental Invest" (now "Continental Management, a subsidiary of Basic Element, engaged in the timber business). Continental sought help from "Sibal" in the fight with the company Energoprom for Ust-Ilim LPK.

Scheme return "Continental" in the Ust-Ilim LPK was traditional: based on the decisions of the courts of Kalmykia and Mr. Eagle taken in support of the claim of the shareholders were reinstated removed from office managers "Continental". With the support of the bailiff of the Irkutsk region and the security services "Sibal" they came to the enterprise. Subsequent attempts to "Energoprom" return the company or to have failed - in the end, stocks had to sell "Sibal". As payment for helping Continental invest also sold part of its shares O. Deripaska.

Successful experience with Ust-Ilim LPK showed that the seizure of enterprises on a power circuit to ensure the claim can. But the resource of this scheme is limited, and lawyers Sibal had to begin to develop new schemes that are not allowed to convict the company of violating the law, and insure it against financial losses and were not given opportunities to reverse the transaction.

At the first stage, before the active war for Kotlas PPM (one of the key assets of Ilim Pulp Enterprise "), an absorber acted as follows: After an active "black» PR-campaign in the media in the court of some of the Federation, but not to where the company receives a statement from an individual, representing the minority shareholder of the factory. This item has shareholder does not like some of the leadership of the enterprise, and it requires a change of bosses. At the same time in the future often turns out that the plaintiff in the registers company does not appear or do not even know where is this plant. Nevertheless, the court shall make a determination in favor of the shareholder. Then in the "hour X" appears at the mill employee firm-owner, peremetnuvshiysya the side of the company aggressor, accompanied by bailiffs and police, and showing a determination, overthrows the company's management. Soon after the change of old to new directors, defector disappears: Sometimes for some time to appear later, sometimes forever. Continue on behalf of the new bosses of production workers refers to the rosy outlook: the rise of wages, the issuance of awards and concern about social objects, etc.

"Forest" project outwardly disguised Basic Element and the interests of the State. That should have allowed him to attract the representatives of the administrative and political circles. The first blow to the empire "Ilim Pulp" Basic Element struck in December 2001 a campaign was preceded by an intensive series of publications in the federal and regional mass media, organized by

Basic Element. The main points were as follows: • from the Bratsk LPK managers IPE deduce liquid assets in a specially created JSC "CCC", while making the Bratsk LPK its biggest debtor; • formed by the huge debt owed to regional power in which 40% of the shares owned by the state; IPE does not pay taxes to local budgets; IPE does not invest in the development of enterprises in the region, IPE is a claim by many government agencies - the MNF, the Accounting Chamber, the Prosecutor General, Basic Research, etc.. Some observers note that in key media possible retaliation PR-actions on the part of IPE have been "blocked". In parallel, an attempt was made to set on the IPE the above-mentioned government. However, the situation in Bratsk not interested nor the Federal Securities Commission, nor the RFBR, nor MNF. On the side of the Basic Element "played" only the Tax Inspectorate of the Irkutsk Region, whose actions, however, have not yielded any success.

Then they decided to go to the Bratsk LPK Model Ust-Ilim LPK. In the suit of a minority shareholder (holder of two shares) decided to "his" court (a court in Nizhny Novgorod), the reinstatement of the dismissed Director. December 21, 2001 he became G. Trifonov, formerly of Ilim Pulp. The court ruled that prohibits the Board of Directors of the company, which gives Trifonov reason for tenure at the right time, Basic Element. In securing the success of being a press conference the new director, who promises a return of assets, the preservation of social benefits, higher wages, union with the Ust-Ilim LPK in a single production complex. All the national newspapers the next day after calling an organized and corresponding information appears. Given that the numbers the next day are formed mainly by 15 o'clock, we can assume that Basic Element deployed in the press a prepared text.

It should be emphasized that changing the leadership on Friday, the new government has two days to study the documents, obtained in the offices of the old directors, and considering its course of action. His Basic Element has denied involvement, although the organization of call involved members of this structure. Apparently not without a declaration was made head of Basic Element company "Vash financial trustee" V. Boyko, who supported the absorption of the plant on behalf of minority shareholders.

IPE have never previously been the victim of such large-scale and illegal attacks. IPE managers had to find out the course of events. But the legal response IPE was adequate. Within two weeks of orders of the higher courts of St. Petersburg, Vladivostok and Yekaterinburg deemed illegal definition of interim measures of regional courts on claims of minority shareholders, but also challenged the authority of the new management of the factories. January 15, 2002, Mr.. The arbitral tribunal recognizes Bratsk actions bailiffs illegal, and January 16 representatives of Basic Element leave the plant. True, specifies one condition: IPE should buy Ust-Ilim LPK.

Capturing the Bratsk LPK and care from him in a way become a strategic mistake to Basic Element. Basic Element has shown that he: Acting on one method, like the illegal methods of force and judicial acts and confident in their "didactic" effect on the enemy. Basic Element made a mistake in the choice

of the facility: no need to start with a small - compared to Kotlas PPM - Bratsk plant (confirmed by audit currency earnings \$ 180 million), much less resort to force. If he had just conquered Kotlas PPM, the pearl of the empire IPE (albeit by force), then after that the chances of the owners of IPE would reduce to a minimum. There were other "cons": in the eyes of many Basic Element has become notorious aggressor, do not fight shy of the methods of the sample mid-1990. His most major "minus" was a pause - Basic Element still searching for a new model of call, IPE has received almost half a year of respite, and was able to develop an effective defense tactics and PR-strategy.

The next three months the parties were preparing for attack and defense, respectively. Avoiding the methods used by the team invaders, and adopting a consistent challenge to the illegal judicial acts, wherever they may be imposed (there were eventually about 150 in different courts), IPE has demonstrated that in the legal field, you can get results. It was determined a large budget for the implementation of PR-campaign, selected partners (Moscow news agency privy councilor, "Mikhailov & Partners" and several smaller ones). For PR-support abroad was chosen one of the best American agencies "Fleishman Hillard and PR-boutique« EMC ». An active response media campaign in Russia and abroad. Subsequently, the PR-campaign IPE abroad will be awarded in the United States winning the "Best foreign PR-campaign of the year" (equivalent of the Oscar for journalists). The problem of redistribution of property by illegal means managed to attract the attention of the State Duma, MEDT, the Ministry of Finance, the Plenipotentiary Representative of RF President on NWFD.

At this time, Basic Element also conducted intensive preparations. The company underwent a change of the head of forestry projects. The scheme, developed in the "Basic Element" at this time, was simple and promise real results. In addition, it guaranteed the company an aggressor against the financial risks - whatever the outcome of the money spent on the purchase of shares, not lost (not counting the high cost of the courts and the "black" lobbying).

Some minority shareholder, resentful of the fact that IPE is not fulfilling its obligations, submits a giant lawsuit. Money in the accounts for this amount in IPE clearly should not be, therefore, recovery will be drawn to the shares of the enterprise. By law, punishment must first be imposed on the funds, then the property and shares. Respondent also given time on voluntary compliance by the court. In the case of IPE, who had money in the accounts, without notice to the defendant's punishment was imposed on the lightning action. Based on this decision, RFBR commits registrar back shares RFBR. Next RFBR sells those shares traded on a commission basis - of course, in favor of a new owner who does not acquire them directly, but through one - the two mediators. Of course, that the shares are valued at the minimum cost. Before the auction provides a formal announcement that no one could blame that on the auction no one knew. As a result, stocks purchased by institutions for Basic Element, friendly to her.

Representatives of the Northwest Branch of the RFBR argued that information about the commission agents was presented at the official website of the office fund. However, to find physical evidence of

this fact did not. Almost like lightning after the sale of the site was placed on the reconstruction. Publications in print media was not there. Part of the money received by the RFBR, returns for the shares remains the owner, while the bulk goes to the factory in satisfaction of damage Ilim Pulp. Thus, Basic Element and the company receives, and returns their money. To do this one thing: at the time of arrival of money for the company there should already be selected collection of new shareholders of the new managers.

In this scheme, were also included former colleagues of Ilim Pulp. A former shareholder of IPE, the head Promstroibank (PSB) in. Kogan entered into an alliance with O. Deripaska. It was a strong move on the part of Basic Element. Through PSB should have the money to go to the captured complexes. In addition, for greater freedom of action of the working group Basic Element is displayed in the company "Promkonsaltinvest" allegedly hired "basic element" for the legal advice the new owners of the shares.

However, the general pattern of call in the Kotlas PPM and Bratsk LPK (namely their actions levied) were strong and "cons". First, as time showed, in "Basic Element" neglected work with the local structures of the Arkhangelsk region. As a result, all - police, prosecutors, courts, service of court bailiffs, city and municipal authorities, most of the press did not have his usual "care". Basic Element was not the very support that is needed to capture the enterprise. Secondly, the "Pillar" was not ready for that IPE will be persistently and consistently defend their interests without succumbing to pressure from the use of administrative resources, threats and blackmail by Basic Element. Thirdly, a number of important errors committed PR Basic Element. On the one hand, they did not expect resistance from the enemy, but on the other - they did not anticipate that the budget for the campaign will be effective in IPE. It was static and tezisnaya base PR Basic Element - protection of interests of the state and "good faith" purchase all the shares soon pall. Uncertainty of legal casuistry constructs also did not play into their hands. Reason PR blunders, probably lay in the absence of a common program of entering the enterprise IPE.

It should be noted that IPE has won and the other: He managed to establish an open coverage of the conflict in the leading foreign media, to organize hearings in Congress and thus form an opinion of the Western business community.

Fourth, "Basic Element" lost the initiative: since July 2002, he was always second, acting in the position of justifying or catching.

In April 2002, in the courts Kemerovo received two lawsuits - from minority Kotlassky mill and Bratsk LPK. Minority shareholders, become owners of shares of a dozen plants in about a week before the trial, stated that the IPE has violated their rights as shareholders, as a result they have suffered damage. The reasons for each of the mill were different: In Kotlas IPE has failed to meet investment conditions privatization program, and in Bratsk - began unwarranted restructuring. April 25 courts have ruled in favor of minority shareholders and decided to charge the company more than 3 billion rubles.

on Kotlas and 5 billion rubles. in Bratsk. While the IPE had the money to pay these sanctions, without notice to the defendant's advisers adopted a decree to foreclose on the shares of enterprises. As a result, in late May - June 2002. 83% of the shares of the Bratsk LPK and 61% of the shares Kotlassky PPM were arrested, returned to the RFBR, then sold to Baltic Financial Agency and the IR "Green Cape" (affiliated with VA Kogan and V. Boyko, respectively). The shares were acquired in favor of a pool of new owners - "Basic Element", "Continental Management", "banking house" St. Petersburg ". This enabled their representatives to say that more than 60% of shares owned by such companies and that "Ilim Pulp" - a minority shareholder. In turn, the IPE argues that owns 94% of shares Kotlassky CBK.

During the implementation of this scheme was made a serious mistake: advisers have not notified the debtor of the beginning of execution. Later, Ilim Pulp has used this fact in the courts. Cases in Kemerovo were violations of the law. In particular, the defendants were not notified about the process. The case went in their absence in absentia meeting. Court did not study any evidence. The plaintiffs were not entitled to procedural say such claims. The case was processed in record time, a week after buying a dozen plaintiffs shares of enterprises. Subsequently, the judge handed down a decision was dismissed by the qualification board, and the case was referred to prosecutors for criminal prosecution. In Kemerovo spring of 2003 was instituted more general case of fraud in large-scale associated with the sale of stock plants.

The main stage of the confrontation was carried out in the genre of trench warfare. Relationships built on the scheme: lawsuits - Response courts, loud statements in the press, both sides attempt to use the argument "they turned to strong-arm tactics." Lawsuits were based on the principle of "your decision, we already have our solution". Moreover, if Basic Element business as usual for the aggressor's methods of work with the courts, IPE to challenge many judicial decisions remain within the law. Decisions of the same vessels were in various regions - from Ossetia to the Far East. Total number of judicial proceedings in this case exceeded 150.

The most interesting technology attempt to capture and defense companies were the following points.

1. The story of the registries. Register Kotlassky mill located in St. Petersburg Central Registration Company (PTSRK), with which a contract for maintenance of the Register has expired. PTSRK controlled. Kogan and was appointed registrar at the time when he was a shareholder Kotlas and Bratsk (he later sold its shares to IPE). IPE breaks her contract for roster and starts a new roster of the company "Energoregistrator", claiming that the former register lost. In fact, the "old" register on the next day after that June is transmitted to the Central Moscow Depository. IPE in court seeking a ban on engaging in transactions with the register PTSRK. There are two registry - each side had its.

Basic Element "working" with the Federal Securities Commission (FCSM), and its head, makes a statement about the propriety of actions Basic Element. Moreover, he accused the IPE in an attempt to

bribe, and later the decision of the Federal Securities Commission is trying to deny licenses "Energoregistrator." Justiciable "Energoregistoru" unable to defend their rights. According to some reports, the hearing represented the interests of the Federal Securities Commission lawyers associated with Basic Element.

2. Privacy Kotlassky CBK. Since 2002, representatives of Basic Element, "Continental Management" and "banking house" St. Petersburg ", members of the newly elected board of directors may not exercise the power plant capture. Ilim Pulp "physically keep them there. Superstructure support Basic Element could not get in, largely because he really does not have normal, clear reason to "call" and he failed to subdue the local authorities. You also can not underestimate the active role of the labor collective, which remained for the duration of the conflict on the side of management IPE. Basic Element has taken a very aggressive PR campaign in the region, but does not take into account the peculiarities of the local mentality, antagonized by local media.

3. Working with foreign media. IPE organizes visit the pool reporters the world's leading media in the Kotlas PPM, and maximize the publicity of the situation abroad. Case IPE becomes a "Case" (studied at Harvard, the University of Chicago, World Bank). Involvement of independent foreign media burst information blockade in Russia and helped create high-quality information field.

4. Blocking with opponents O. Deripaska. Owners IPE temporarily joined forces with Potanin on the basis of elections in Krasnoyarsk.. This has contributed to the emergence of articles and reports the press service of IPE in the media resource of the latter, in particular, in the newspaper "Izvestia".

5. Deadlock each other in the media. "Basic Element" and "Ilim Pulp" literally cut off oxygen to each other in print and electronic media. As a result, most newspapers stopped printing all materials on this topic. In the regional press as the situation unstable.

6. The position of the State Duma and Federation Council. At first, "Basic Element" uses deputies in the traditional manner: For comment in the correct manner of current events and for the filing of deputies' inquiries about the IPE. "Ilim Pulp" went the other way: He first invites a group of deputies in Kotlas, initiating an open deputy investigating the situation.

In January 2003, "Ilim Pulp" tried to go on the offensive. In London Arbitration Court lawsuit was filed against the companies representing the interests of Basic Element. The subject of the proceedings - an agreement by December 30, 2001, on which the structure of Basic Element sold Ilim Pulp controlling stake in the Ust-Ilim LPK. In accordance with additional agreements opponents IPE manager promised to withdraw from the factory, to compensate the damage caused by their activities and two years not to engage in timber business in the Irkutsk region. The claims were the same as before: Basic Element withdraw assets from the Ust-Ilim LPK, caused damage to more than twenty million dollars, and the company actively introduced in the forestry field. However, it must be assumed that the appeal court in London was rather normal PR action aimed at attracting world attention.

In early February, IPE wins new tactical victory. The Arbitration Court of St. Petersburg recognizes insignificant deal to sell shares of RFBR Kotlassky mill and Bratsk LPK Baltic Financial Agency, to act for Basic Element.

In March, IPE is taking the next step - makes the announcement of the transfer of a single share, and the inclusion of the issue of unification on the agenda of annual meetings of shareholders, scheduled for the second half of April. This was reported in the newspapers "Kotlasskij wallet" and "Labor Korjzhma". Three weeks later, "Basic Element" provides a symmetrical response - "Kommersant" publishing "correct" declaration of a "legitimate board of directors of OAO Kotlas PPM" for a similar meeting of shareholders in these days, but in other places. Basic Element's position has traditionally been: A minority shareholder does not coordinate its actions with a majority shareholder, entered the wrong venue for meetings and, of course, the name of the registrar.

"Pillar" made one last attempt to use in connection with the situation familiar thesis that "state interests". However, the weight of their attracting V. Zhirinovskiy was not enough. Deputies did not support his proposal to ask the State about the whole incident.

PR-campaign "Basic Element" to continue further. In May, the target was the regional arbitration court, which considered the minority shareholder lawsuit against the decision of shareholders Basic Element, but refused to examine the claim of minority shareholder Basic Element.

During June "Basic Element" once again tried to play the familiar triad of the state - officials - Offshore. But the materials, pay attention to a number of government officials, ostensibly to help IPE, due unsuccessful. Was left unanswered and the message that Ilim Pulp had allegedly started the withdrawal of liquid assets Kotlas Pulp and Paper Mill and Ust-Ilim LPK to offshore.

Meanwhile, the IPE has implemented the first, but very important step towards the realization of its plan - move to a single share. June 17 at all enterprises of the deadline for submission of claims for redemption of shares of shareholders who do not wish to exchange their securities for shares created by JSC Ilim Timber Enterprise. Thus, less than a month IPE actually managed to implement the decision of shareholders' meetings.

Later information appeared on the IPE Reporting Standards IAS, that is, it was officially announced on the transparency of the company. IPE began the reform of corporate governance. Company was restructured, its assets were transferred to a single share. Created Holding (Ilim Holding), registered in Switzerland.

In 2003, the conflict of "Basic Element" and IPE ended with a peace agreement, which IPE has paid 200 million dollars as compensation. In late October, 2006. has information on the sale of the business IPE world's top players in the forestry and pulp and paper industry - the American corporation International Paper (IP). Although the amount of the transaction, according to some experts, is understated (1.3 billion dollars calculated using a multiplier against 2.5 billion dollars. - It is a price-

called experts in the light of a possible IPO of the company), it gives confidence in the investment program, and that the IPE will not again subject to a hostile takeover.

Annex 5. Basic levels of corporate control

1% of shares gives the right to inspect the internal company documents, receive a list of shareholders who participated in the general meeting of shareholders, as well as receiving dividends.

2% of shares assume the nomination of candidate to the Board of Directors and payment issues in the agenda of the general meeting of shareholders.

10% of shares are entitled to convene an extraordinary shareholders' meeting.

15% 1 action may provide the majority of votes at the second meeting of shareholders, the quorum of which is 30%.

20% of the shares may be accumulated only if permission is obtained from the Federal Antimonopoly Service.

25% 1 share (a blocking vote) gives the right to participate in determining the matters requiring approval by qualified majority - 3 / 4 votes (reorganization, changes in the statute, etc.).

30% of the shares provide a quorum at the second general meeting of shareholders.

50% 1 share gives the right to decide most issues except the possibility of making changes and additions to the charter, reorganization and liquidation of the company, determine the number, nominal value, category (type) of declared shares and rights granted by these shares, the acquisition of company shares outstanding.

75% of shares are entitled to make decisions on all matters within the jurisdiction of a board of directors and general shareholders meeting.

95% of shares give the right and duty of the majority shareholder to buy shares from minority shareholders at a price fixed by an independent appraiser, but not below the market at the current time.

Annex 6. The shareholders' conflicts in the process of mergers (acquisitions): Baltika Breweries

Corporate Information

State Enterprise Baltika Breweries was approved in 1990. In 1992, started the privatization of enterprises, during which there was a reorganization into an open joint stock company. Shareholders of Baltika became the 28 businesses and over two thousand individuals. Two years later, 44% of its shares acquired Holding BBH (Baltic Beverages Holding), later will increase his stake to 75.4% (BBH on an equal footing belongs to the Danish and British concern Carlsberg Scottish Newcastle). In 1998, the shareholders approved the decision of the Board of Directors to rename the company, and the full name now reads as JSC "Baltika Breweries".

Around this time, the company began to implement the idea of creating their own brand - "Baltika". From the beginning of "Baltika" was conceived solely as a beer of the highest European level, brewed according to classical technology. Realizing this problem, plant management has developed the first investment program for reconstruction and development company. The program was designed in 1993-1998 gg. and included the installation of a modern European equipment to ensure high quality of beer. The program was completed ahead of schedule in full by November 1996. As a result, Baltika has become the largest beer producer in Russia.

In an effort to make their products accessible to all consumers to Russia, Baltika, Russia's first began to create his own holding, acquiring in 1997 a controlling stake in the plant "Don Beer" in Rostov-na-Donu. In October 2000 purchased a controlling stake in the plant "Tula Beer". It was developed by an investment program aimed at increasing the capacity of these plants and the replacement of obsolete equipment.

In addition, since 1998, "Baltika" creates a network of sales offices in the regions. Currently open for twenty-eight offices in major cities of Russia.

At the end of 2004. Company has nine subsidiaries:

- LLC "Baltika-Moscow" (sale of beer)
- LLC "Leasing-Optimum" (leasing)
- LLC "Universalopttorg" (warehouse)
- "Terminal Podolsk" (warehouse)
- LLC "Baltic-Ukraine" (Ukraine; sale of beer)
- LLC "Baltika" (Kyrgyzstan, tracking sales)
- Baltika SRL. (Moldova; support sales)
- JSC "Baltika-Almaty (Kazakhstan; support sales)
- Baltika Doytchland GmbH (Germany; sale of beer).

The company has in its composition the following subsidiaries, which include factories for the production of beer and mineral water, as well as sales offices: "Baltika - St. Petersburg, Baltika - Rostov, Baltika - Samara", "Baltika - Tula, Baltika - Khabarovsk". Separate sales divisions are located in cities: Vladivostok, Volgograd, Vologda, Voronezh, Ekaterinburg, Zheleznovodsk, Irkutsk, Kazan, Kemerovo, Kopeysk, Krasnodar, Krasnoyarsk, Kursk, Lipetsk, Moscow, Nizhny Novgorod, Novosibirsk, Omsk, Perm, Saratov, Smolensk, Tyumen, Ufa, Yaroslavl.

Financial results of the company for 2005

Company in 2005. demonstrated the following financial and operating results:

- sales of all products in kind - 22.7 million hectoliters, the growth of 13,8%;
- sales of beer in kind - 22,4 million hectoliters, the growth of 13,1%;
- sales in monetary terms - 977.2 million euros, growth of 22,2%
- the gross profit - 507.5 million. euro, increased 33.1%;
- profit before depreciation, taxes and financial items (EBITDA) - 302,9 million euros, growth of 37,6%
- operating profit (EBIT) - 233,0 million euros, growth of 44,4%

The share of Baltika in Russia's beer market grew to 24.1%, growth was 5.7 percentage points in comparison with 2004 the volume growth of beer sales for the year amounted to 13,1% (on average beer market in Russia grew by 6%).

In 2005, the Company strengthened its position in all segments of Russia's market:

- share of the company "Baltika" in the market increased to 24.1%;
- share in the licensing segment amounted to 8,2%;
- in the premium segment exceeded 30%;
- in the mainstream segment reached 36%;
- in economy segment exceeded 29%;
- a low-price segment increased to 13%.

Average price growth for the company's products in rubles in 2005. amounted to 8,5% in line with inflation and the food market. The reasons for rising prices are inflation and the substantial investment in improving and updating packages. The company increased its share in all segments of the packaging on the market, including the most profitable segments - cans and bottles - in which the proportion was 41,4% and 29,9% respectively. In the fast-growing segment of the PET packaging company's share amounted to almost a quarter. Also increased in comparison with 2004 the share in draft beer, reaching 16,7%.

In 2005. company continued to successfully develop the direction of exports. The volume of export sales for 2005 amounted to 13,9 million has given, which is 23% higher than in 2004 In 2005,. geography of export sales had increased to 38 countries, including all the CIS countries, as well as the

state abroad, including USA, UK, Canada, Germany, Israel, Greece, the Baltic countries. The share of Baltika than 70% of Russia's exports of beer.

Company charter capital amounts to RUR 130703680. Issued 117158530 nominal 13545150 ordinary shares and preferred shares type A nominal value of 1 ruble. each.

Each common share gives the shareholder, its owner, the same amount of rights in accordance with the applicable legislation of Russia.

The company has carried out three issues of common registered shares and two issues of preferred registered shares of type A.

In 2004, Baltika had made their first ever corporate bond issuance, placing on the secondary market a three-year bonds with a face value of 1 billion rubles. Issue was placed entirely with the weighted average yield of 8.99% per annum until maturity. The unique structure of the bond issue has allowed investors to withdraw from the risks of changes in interest rates in the period since the initial public offering before the registration of the results release. The result of this placement method was the best price accommodation (with lower-income housed only the oil and gas industry), along with high liquidity and attractiveness of the issue. Issue helped to start a public company's history on the equity market. This initiative may open new sources of financing current and investment company in the future. The company has a long-term investment rating agency Moody's.

Currently, trade in shares of the company "Baltika" is carried out on an organized exchange and OTC markets. Since September 2001. When the company's shares were listed on the RTS, the capitalization of "Baltic" has increased 3 times, and by October 2004 exceeded \$ 2 billion company's shares are listed on two major Russian stock exchanges: RTS Stock Exchange (RTS Stock Exchange) and Moscow Interbank Currency Exchange (MICEX).

Company's dividend policy is based on the principle of equitable distribution of profits among its shareholders in proportion to number of shares of a certain category. The company strives to consistently increase the amount of funds allocated for the payment of dividends to shareholders, and comply with the principle of best value on the dividends paid on preferred shares, compared with the dividend on ordinary shares. Dividends on preferred shares can not be lower than that prescribed in the charter of the company.

The basic principle of the dividend policy of the company - a rational ratio of sums of dividends and the funds needed to implement the strategic plans of the company. In recent years the value of dividends paid per share is constantly increasing. Thus, the dividend per share of common and preferred share, accrued up to 2003, increased by more than 3.6 times compared to 2000.

Position of the company

Russia beer market - one of the fastest growing segments of the food market. Since 2004, the industry is actively going consolidation processes. Despite some slowdown, the market has significant potential:

Despite rapid development, the market has significant industry potential: average Rossiyanin, drinking 56 liters of beer per year, still noticeably inferior to the inhabitants of Europe.

Growth in sales of the company "Baltika" has always outpaced the growth rate of the market in general, this process is preserved and is currently (Figure).

In the fiercely competitive conditions, the company continued to maintain and strengthen the leading position in the market: the company produced a quarter of Russia's beer, and its share in market growth in 2005 was 41%. The company grew rapidly during the year, quarterly increase its market share. This is due to the consistently high quality products, the formation of an effective distribution system and a new marketing policy, which included an expansion of variety series, holding restyling, innovative solutions in packaging and active advertising support key brand of the company.

Some 290 breweries of various capacities are now working in Russia, but more than 85% of the market accounted for by just five companies - BBH, Sun Interbrew, Heineken, Efes and Ochakovo, which together own 36 factories. The leading brands in the market are brands Baltika (Holding BBH) - actually "Baltika" (10,9%) and Arsenalnoe (5.4%).

The company took 58 th place in the list of largest companies in 2005 (according to the journal "Expert"). As the value of the Baltika brand is ranked third among Russian brands.

After joining "Vienna", Yarpivo and Pikra turnover Baltika will exceed 1.5 billion euros and a market share of 36%, which is 2 times higher than the nearest competitor Sun Interbrew. With capitalization of 4.168 billion dollars it today is the largest consumer of Russian companies on the stock market.

Combining the assets on the basis of "Baltic"

In 2005. Holding BBH brewery - a key shareholder in Baltika, as well as nine other major breweries, including the "Vienna" (St. Petersburg), Yarpivo (Yaroslavl) and Pikra (Krasnoyarsk), has announced plans to pool their assets on the basis Baltika. It was assumed that the union will take place in two stages. The first phase was to be made the offer to purchase shares of companies "Vienna", Yarpivo and Pikra from minority shareholders or their exchange for shares of Baltika. This proposal should have been approved by the minority shareholders "Baltic" at the general meeting of shareholders. In the second stage, after approval by shareholders of the plan for the integration of all four companies and align it with the regulators (Federal Financial Markets Service and the FAS Russia) planned that the final restructuring of the company, consisting of companies in becoming "Vienna", Yarpivo and Pikra to Baltika.

Assessment of the market value of all assets of BBH to be unity, was made by Deloitte., The second stage - the end of 2006

In order to secure an opportunity to influence the minority shareholders, holding BBH attempted to reduce its stake in the company "Baltika" before the first vote on the accession of Pikra. BBH sells 11% stake in Baltika its affiliates Carlsberg Breweries, Scottish. Minority shareholders saw this as an attempt to secure a BBH numerical advantage when making important decisions. By law, the owner of more than 80% of the company shall not vote at shareholders' meetings, and in case of accession Pikra and the subsequent exchange of shares, this threshold would be exceeded (IDUs at the time owned more than 87% of Pikra). Minority shareholders Baltika saw this as a violation of their rights, because, in their representations, market assessment Pikra had been unfairly inflated.

On the eve of the meeting, several minority shareholders have begun legal proceedings to protest against the purchase of shares Pikra or fixed rate of exchange of shares. On the one hand, the legal company "Alimirzoev and Trofimov, representing the interests of the investment company Elektromir, owns 0.00004% of shares of Baltika, issued a statement that the deals" Baltic "infringe on the rights of smaller shareholders. And on the other - the ex-president of Baltika Taimuraz Bolloev, retained about 1% of the brewing company, began to publicly resent plans BBH. According Bolloeva, price Pikra was overstated approximately twice. Money that BBH had intended to spend on the acquisition of the company, should, as did minority shareholders, to spend on increased dividend payments.

. Challenged in court and the sale of shares in Baltika, owned by BBH, the holding company affiliated with the investment fund Hartwall Capital, which, thus becoming, a minority shareholder, could take part in voting at a meeting of shareholders, acting in fact for BBH.

The result of these actions was that at an extraordinary meeting of shareholders of Baltika, which was a question about buying a 70.3% stake in Pikra for 67.5 million dollars for the purchase of votes with 49.3% disinterested shareholders, while 32 % declined to express an opinion. The decision to purchase shares had been taken on the initial conditions.

To combat joined BBH shareholders and other holding company owned asset - Yarpivo, which blocked the association Yarpivo with brewery "Voronezh", the main share of stock which is also owned by BBH.

Later, the company "Elektromir filed a new suit in the Court of Arbitration of St. Petersburg and Leningrad region, challenging the decision of the Board of Directors of Baltika about this cross-production at the plants" Baltic "and" Pikra. The impropriety of such action was motivated by the fact that they mark the beginning of the operational merger, although the decision to purchase Pikra "at that time had not yet been approved by the minority shareholders" Baltic ".

While BBH is not abandoned plans to merge the assets, the terms were revised. Minority shareholders of all companies offered to exchange their securities for shares of Baltika "or sell them.

The exchange will be made on the coefficients calculated on the basis of assessment of market value of all units of BBH, which again made the Deloitte. For this assessment Baltika worth 4.168 billion dollars, "Vienna" - 774.142 million, Yarpivo - 601.061 million, Pikra - 86.791 million dollars. Market valuation Pikra was revised downward, thereby repay the wave of criticism and seek the endorsement of minority shareholders.

Independent shareholders owns from 7% to 12% of ordinary shares in companies that pay their owners could reach an estimated 200 to 600 million dollars. For exchange Baltika has released an additional 48.2 million shares.

In late 2006, the reorganization of the assets of BBH has been completed. December 28, 2006, Mr.. of "Vienna", "Pikra and Yarpivo were excluded from the Uniform state register of legal entities, thus marked by their legal connection to the" Baltic ".

Projected results of association

Analysts predict that the association "Baltic" will become a company with annual turnover of more than 1.5 billion dollars and a market share of 36%, which is two times larger than its nearest competitor Sun Interbrew. As part of the combined company will be ten breweries with a capacity of 40 million hectoliters of beer per year (sales of the combined assets of BBH in 2004 - about 30 million hectoliters). The portfolio of unified "Baltic" will also include all brands manufactured by companies now. Due to the synergies from the merger of Baltika expects to receive an additional 60-80 million dollars by reducing costs. Most of the savings achieved by the merger of advertising budgets and joint buy-back time in television, as well as reduce the costs of logistics at the expense of cross-production. Also included are joint procurement of raw materials, packaging equipment. Also planned large-scale investments in renovation of production associated companies.

Questions

1. Describe the mechanism of the combination. What kind of mergers and acquisitions, we are facing?
2. Describe the main problems faced by the key shareholder in the way of consolidation of its own companies?
3. Describe the possible benefits from the merger of companies, types and sources of synergies.
4. Assess the value of the company after the merger.

Annex 7. Sample test tasks

1. Name wrong statements:

- a) sellers in most cases benefit from the merger;
- b) the buyers in most cases benefit from the merger;
- c) the company's managers always win against hostile takeovers;
- d) the most likely target for acquisitions - companies with unusually high for the industry performance indicators;
- d) a public offer to purchase shares in a company requires the approval of its managers of company-buyer;
- e) in the world currently dominated by horizontal mergers (acquisitions) with the participation of transnational corporations.

2. Name the types of reorganization of legal entities that are governed by the legislation of Russia:

- A) the merger;
- B) absorption;
- B) consolidation;
- C) accession;
- D) association;
- E) conglomeration;

3. Which of the motives of mergers and acquisitions economically justified?

- A) economies of scale of activity;
- B) reduce risk through diversification, which is achieved by merging;
- C) desire to use free cash flow a company with high profitBut scant opportunity for growth;
- D) the use of the possibility of shifting losses in future periods to reduce taxable profits in the future;
- E) increase revenue by capturing new markets;
- F) growth in net profit per share;
- G) All of the above.

4. According to the previous question: What kinds of effects can be attributed to the operating synergies, and what - to finance?

Operating synergy: _____

Financial synergies: _____

5. What methods of protection against hostile takeover may use a company in which 30% of shares owned by management and majority shareholder, and the remaining shares distributed among a large number of minority shareholders?

6. What stake in the company can be accumulated in the hands of one owner only with the permission of the Federal Antimonopoly Service?

- A) 10% of shares are entitled to convene an extraordinary meeting of shareholders;
- B) 15% plus 1 share;
- C) 20%;
- D) 25% plus 1 share.

7. What percentage of the shareholders (owners of voting shares) of companies must approve the imminent takeover?

- A) 50% plus 1 share in each company;
- B) 50% plus 1 share in the absorbing company and 75% in the target company;
- c) 50% plus 1 share in the target company and 75% in the absorbing company;
- D) 75% in both companies.

8. What are the main types of protection from hostile takeovers, which can be used in the Russian conditions:

- A) protivokakuly repellent;
- B) poison pill;
- C) golden parachutes;
- D) to attract "white knights";
- E) divestment of assets;
- F) none of the above;
- G) All of the above.

9. The practice of supplementary payments to top managers, as provided in the event of a takeover or a merger with another company, called:

- A) a poisonous pill;
- B) protivokakuly repellent;
- C) scorched earth;
- D) golden parachutes;
- E) program of stock options.

10. Fill in the blanks:

- A) _____ merger occurs when two companies merged in one sphere of activity;
- B) association of metallurgical coal company is an example of _____ merger;
- C) acquisition of its main supplier is an example of _____ absorption.

11. Absorption can be regarded as a friendly or unfriendly depending on the attitude to the proposal of the absorption:

- A) the owners of the target company;
- B) the target company managers;
- C) the company's stakeholders-goals;
- D) workers target company.

12. The growth of credit and creating conditions for intra-financing (cross-financing) as a result of the merger can be considered as elements:

- A) operating synergies;
- B) financial synergies;
- C) improving governance;
- D) increase in the value of the company.

13. Which of the following methods of protection are named "poison pill"?

- A) sale of assets the target company before the merger;
- B) the additional issue of shares and selling them to existing shareholders at a low price;
- C) repayment of the target company before the merger;
- D) guaranteeing high severance payments to top managers to targetompanii in the case of absorption;
- E) contracts to attract debt capital to the condition of repayment after the merger;
- F) an appeal to friendly company with a request to purchase shares on the market or buying a company as a whole.

14. Which of the above applies to the "scorched earth"?

15. What are the main reasons for purchase of the company by its management. What are the advantages and disadvantages of MBO?