



Photo: Alexei Kudikov

“I am getting a bit nervous because Russia is booming again”

What are the positive – and the more depressing – messages coming out of Russia today? **Elena Kirillova**, Consultant specialising in Russia and the CIS, **Denton Wilde Sapte**, is well placed to judge

Are Russian companies preparing to list abroad?

Recently I was in Moscow doing a seminar on AIM – the alternative investment market of the London Stock Exchange (LSE). AIM has been a great success for the LSE at bringing companies, which often have all their assets in a developing market, onto the stock exchange. We have identified this as an area of interest to us in relation to Russia.

Transparency was the most consistent theme to come from the participants. They really couldn't see that their companies or shareholders would be ready

for the level of transparency and disclosure required, not just for the purposes of the listing but going forward. When they weigh up transparency against getting the funding, they thought that it would be unlikely for their companies. That was a depressing message.

It is interesting to note that our clients in Central Asia are quite prepared for what is involved and are keen to embrace the requirements because they see it as an opportunity to forge a definite link with the west, to come of age and be visible and part of the London scene.

Do you believe, then that there are still companies that want to keep their head below the parapet?

Yes - well below the parapet. I remember in Moscow just after the arrest of Khodorkovsky, the message was: 'this is the death of transparency in Russia'. Whatever you say about the various reasons for what happened, everyone agrees that Yukos was perceived as being extremely transparent. The reaction of Russian business was to say that the reason that the tax people could mount such a detailed case was that the information was available. They now think

that best way to protect themselves, therefore, is to not make the information available.

That would seem to contrast sharply with what we are currently being told about Ukraine, ie that there are many owners who kept their heads down during the Kuchma regime, and who are now emerging, wanting to find partners or list abroad.

We do have a number of new clients from Ukraine who are looking to list. We haven't managed to bring anyone out for a listing yet, other than a client with significant foreign investment. But that is certainly consistent with my impression of the place.

The Russian government has approved the new Subsoil Use Law, which bars foreign companies from directly owning 'strategic' resources. What is your view on new law?

I think that it is unnecessary and I have said as much to representatives of the Russian government. I really don't see what the point of it is. From a Russian government point of view, the problems that they have encountered haven't been from foreign investors who are large enough to be interested in what the Russian government would consider to be strategic investments. The problems that they have are from Russian entrepreneurs and investors. I could see some sense in some new legal provisions, allowing the government to retain a discretion in relation to the way they divest of their interests in strategic assets. But to put in some sort of distinction between foreign investment and Russian investment is a major backwards step. We need a level playing field and clear rules of conduct.

However, and this is speculation, it is quite possible that this is all about – not as we have assumed – barring the big oil majors, but an attempt to encourage the money that disappeared in the capital flight in the last decade to return.

Is the boom in M&A activity continuing?

Very much so and a lot of M&A activity is domestic. There is also an increasing amount of activity with Russian com-

panies looking outside Russia – to the 'near-Abroad' as well as further afield. While I don't think that there are any private equity investors going back into Russia in any meaningful way yet (these investors are very active in Central Europe, and have been for several years, but they are not really visible in Russia) there is a trend that is developing with companies in Russia that are

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not private equity houses in the traditional sense but nevertheless behaving and purchasing companies following a similar logic to private equity houses.

Putin's second term began with great hopes. What is the best that investors can hope for from the administration now?

The best that they can hope for is a level playing field and a continuation of the rather dull, but important, administrative reform with implementation of the necessary changes that the government embarked on a couple of years ago. This reform has proceeded quite slowly – such as improving the status and independence of judges, removing ambiguities in the appeals process, reducing the number of civil servants but improving the pay and rewards of those that remain, ensuring that they retain a good calibre of people within the government circles, social reform.

The pension reforms should be of significance. There is also the question of allowing an increasing involvement

of the private sector in healthcare and education.

As a lawyer, I would also say that there should be as little radical legislative change as possible. There is a lot of activity that we can expect from the Federal Service on Financial Markets but we should also watch what happens between that service and the Central Bank. There are people who consider that the two functions should be merged.

Do you think that Russians look at Ukraine, see how it is being embraced by the west, and have any kind of 'chic envy'?

I don't think there is envy at all. I think there may have been some envy about Poland – but no Russian would ever admit that. Regarding Ukraine, the emotions vary from complete indifference to concern, because the more Ukraine embraces the west, the more there is a feeling of absolute isolation in Russia.

Some foreigners say that Russia is really part of Asia and it is fashionable now for some Russians to say 'we have tried working with the west, it hasn't really worked out so the government should look at Asia for partnership'. But if you look at the history, Russia has always either embraced Europe or it has been in isolation. It has never embraced Asia.

The more that Ukraine flirts with the west, the more isolated Russia will feel and that will provide support to people who are isolationists, which is a bad thing, both for Russia and also for Europe.

Do you have concerns as to whether Russia's current growth will be sustained?

There is an argument that economic cycles in developing countries depend, to some extent, on recruitment cycles in banks, ie when people who can't remember the last crash starting to do the deals again. Certainly that has been my experience with Russia over the last 15 years. I am getting a bit nervous because Russia is booming again. When I get clients ringing up asking about investments into Russian real estate, I start worrying. **rir**