

Opinion of the INSTITUTE OF ECONOMICS OF THE RUSSIAN ACADEMY OF SCIENCES on the lawsuit by Rosneft and Bashneft against Sistema claiming damages of RUB 170 billion.

Information about the experts who prepared the opinion:

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Vladimir Ivanovich Voloshin, Head of the Energy Policy Sector of the EI RAS, Doctor of Economics, Professor, Member of the National Investment Council, Member of the Expert Council of the Higher Attestation Commission, Member of the Dissertation Council for the World Economy specialisation at the EI RAS and the State University of Management, author of numerous publications and studies on issues related to the energy economy in Russia and foreign countries.

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Questions considered:

1. Did Bashneft incur losses as a result of the spin-off of Bashneft-Invest from Sistema-Invest with the simultaneous merger of Bashneft-Invest with Bashneft?
2. If losses were incurred during the restructuring of Bashneft, what is the amount thereof?

Summary of the study:

The restructuring carried out in the form of the spin-off of Bashneft-Invest from Sistema-Invest with the simultaneous merger of Bashneft-Invest with Bashneft (hereinafter referred to as the ‘Restructuring’) **made economic sense for Bashneft and the company's shareholders**, and enabled:

1. The elimination of an economically inefficient cross-ownership scheme between Bashneft and Sistema-Invest;
2. An increase in the transparency of the structure of the share capital of Bashneft;
3. The creation of prerequisites for placing an additional issue of company shares and the trading thereof abroad.

These actions led to an increase in the value of the company, which is reflected in the increase in the price of Bashneft shares.

Under the terms of the Restructuring, the assets of Bashneft (63,488 shares of Sistema-Invest and the right of claim for loans issued by Sistema-Invest) were exchanged for assets commensurate in value (38,139,925 ordinary shares of Bashneft).

The terms of the Restructuring did not affect any aspect of Bashneft's operations and did not have a negative impact on the company's financial performance.

The cancellation by Bashneft of its own ordinary and preference shares, which was part of the Restructuring procedure, cannot be regarded as having inflicted losses on the company for the following reasons:

- The acquisition, including during the Restructuring, or buyback and cancellation of treasury shares is a statutory form for a company's distribution to shareholders of that part of the share capital that accounted for these shares, which is similar to the distribution of the company's accumulated profit in the form of dividends. In this case, redistribution is in the form of payment for acquired (repurchased) shares and the growth in value of the remaining shares as a result of an increase in their share in the company's authorised capital;
- The sale of treasury shares, in essence, is not the sale of property owned by a company; rather, it represents an issue of share capital. Thus, the cancellation of treasury shares is only a form of disposal of capital by the company. The sale of treasury shares, or their cancellation followed by a new issue of a comparable number of shares, is completely equivalent in terms of the economic impact on the company.

As a result of the Restructuring of Bashneft, the obligations to its shareholders were settled in an amount commensurate with the value of the transferred assets, and a share premium reserve was created at a favourable time for the company with the most favourable terms for Bashneft, without prejudicing the interests of the company's shareholders (which otherwise would have taken place due to the dilution of their share in the company's authorised capital relative to before the Restructuring).

Thus, it follows that in the course of the Restructuring in the form of the spin-off of Bashneft-Invest from Sistema-Invest with the simultaneous merger of Bashneft-Invest with Bashneft, Bashneft did not incur any losses. The Restructuring was carried out in accordance with legal requirements and the provisions of the charters of the restructured companies, as evidenced by, among other things, the absence of claims from regulatory bodies (the Tax Service and the Central Bank of the Russian Federation), to which relevant documents were sent in the process of the Restructuring.

Conclusions from the study:

Taking into account the facts stated in this Opinion, the experts have come to the following conclusions:

- The Restructuring in the form of the spin-off of Bashneft-Invest from Sistema-Invest with the simultaneous merger of Bashneft-Invest with Bashneft was economically sound for Bashneft;
- The Restructuring created the necessary conditions for an additional issue of shares and for the trading thereof on the London Stock Exchange (IPO), which, in addition to income from the share emission, would have led to an increase in the liquidity of the company's shares, an increase in its market capitalisation, an increase in the accessibility of capital market funding on more advantageous conditions for the company and a reduction in borrowing costs;
- The terms of the Restructuring provided for an exchange of the assets of Bashneft for assets that were equivalent in value;
- The Restructuring process did not contain conditions that could have had a negative effect on the company's operations or on the value of its shares. On the contrary, the Restructuring led to an increase in the company's market capitalisation;
- As a result of the acquisition (buyback) and cancellation of shares during the Restructuring, Bashneft granted shareholders the stake the share capital equivalent to the shares held. At the same time, the company gained the possibility to carry out an additional issue of capital in an amount that was at least equal to the value of the cancelled shares without prejudicing the interests of existing shareholders;
- Actions were taken to carry out just such an additional issue. In this event, Bashneft could have raised up to RUB 93.65 billion.

Thus, the Restructuring in the form of the spin-off of Bashneft-Invest from Sistema-Invest with the simultaneous merger of Bashneft-Invest with Bashneft corresponded to the goals set for conducting an additional issue of company shares on the London Stock Exchange (IPO) and, in our opinion, did not result in losses for Bashneft.

The full version of the opinion is available on the website of AFK Sistema: www.sistema.ru.