

M&A Up \$46.8Bln, But Still Off

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The volume of mergers and acquisitions on the Russian market showed annual growth in 2010 of \$46.8 billion, but no structural changes were seen in the field, which remains skewed by a few big foreign deals.

"The first impression of a balanced market with a strong share of cross-border transaction does not reflect the underlying deal activity," said a report released by the international accounting and consulting firm KPMG.

The price tag attached to M&A activity in 2010 was \$95.6 billion, up from \$48.8 billion in 2009 — but still well shy of the 2007 pre-crisis high of \$159.4 billion.

The three largest transactions in 2010 and the first quarter of 2011 — VimpelCom's purchase of Wind Investments, LUKoil's buyback of 19.2 percent of its shares owned by Conoco Phillips and BP's 9.5 percent purchase of Rosneft as part of a \$16 billion share swap — represented about one-third of total M&A value.

The communications and media sector accounted for 35 percent (\$33.5 billion) of all deals, the oil and gas sector for 21.2 percent (\$20.3 billion) and the metals and mining sector for 10.3 percent (\$9.8 billion).

However, Russia accounts for less than four percent of the global volume of M&A — and, without a few big foreign deals, the sphere would consist almost entirely of domestic activity.

The KPMG report highlights that, of the M&A activity recorded in the first quarter of 2011, 47 percent was inbound — foreign companies acquiring Russian assets. This is a significant upsurge on the 2010 figure when only 14 percent of total activity was inbound.

The BP-Rosneft share swap, included in the figures, however, has not been finalized and is facing a slew of legal challenges from BP's billionaire partners in TNK-BP.

KPMG said they expected M&A activity in Russia to continue to grow through 2011. The fulfillment of the promised privatizations of state-controlled companies will play a significant part in this process, the report said.

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