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Mergers and acquisitions strategies in the modern economy

Thesis

Autumn 2018

School of Business and Culture

Bachelor of Business Administration, DP in International Business

SEINÄJOKI UNIVERSITY OF APPLIED SCIENCES

Thesis abstract

Faculty: School of Business and Culture

Degree Programme: Bachelor of Business Administration, DP in International Business

Specialisation: International Business

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Title of thesis: Mergers and acquisitions strategies in the modern economy

Supervisor(s): Päivö Laine

Year: 2018 Number of pages:67 Number of appendices:0

An object of the research is international oil and gas company.

The purpose of the bachelor's thesis is to develop ways to improve the financial results of acquisitions through the analysis of international experience and structuring transactions.

Based on the analysis of the main indicators of business activity of companies PJSC "NK Rosneft" and TNK-BP Limited was assessed the economic effect of acquisition and was analyzed the impact of this performance on the company's indices. Were identified the main problems of merger and acquisition transactions.

Was developed a programme in order to improve the results of transactions. Efficiency of implementation will lead to lower costs, lower staff turnover and growth of the synergistic effect.

Keywords: mergers and acquisition strategies, integration, international experience, economic effect, enterprise analysis, income approach, oil and gas industry, ways of improving financial results, industrial analysis, human resources.

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Terms and Abbreviations

MNC	Multinational company
M&A	Mergers and Acquisitions
JSC	Joint-stock company
PJSC	Public joint-stock company
ROA	Return on assets
ROE	Return on equity
ROIC	Return on invested capital
ROS	Return on sales
ROCA	Return on current assets
WC	Working capital
EV	Enterprise value
EBITDA	Earnings before interest, taxes, depreciation and amortization

INTRODUCTION

In recent decades various sectors of the worldwide economy have changed significantly. The process of globalization of the modern economy requires a new level of business development. National financial markets are becoming more and more integrated and as a result, the nature of competition and business structure are changing. Thus the general trend is to become more open system for international competition.

Now multinational corporations take up a special place in the world economy. In the context of globalization, the strategy of MNCs is characterized by the desire to expand its activities. Recently, the basis of expanding, conquering new markets, improving their competitive position on a global scale is the investment activities of MNCs based on the mergers and acquisitions deals.

Cross-border mergers and acquisitions are one of the fastest ways to ensure the growth of companies and the creation of prerequisites for new organizational forms of multinational corporations.

The topic of my bachelor's thesis is "Mergers and Acquisitions Strategies in the Modern Economy".

The relevance of the chosen topic is due to the fact that the growth of the dynamics of mergers and acquisitions, which has been observed in recent years, their significant impact on the economies of the participating countries, the involvement of more and more countries in these processes, objectively necessitates deep research of this important phenomenon. Thus, the improvement of this process can bring significant benefits to the enterprises.

The global experience in this area shows that about 76% of transactions end in failure. Thus, an enterprise growth strategy through integration is extremely effective, but only in case of sufficient preparation and correctly conducted process at all stages.

The purpose of the thesis is the analysis and justification the effectiveness of mergers and acquisitions of the companies and development set of recommendations to improve the efficiency of transactions in this area.

A subject of the research is M&A of the enterprise, as a growth strategy in a modern market.

An object of the research is to assess the effectiveness of the acquisition of the company PJSC "Rosneft Oil Company" and TNK-BP Limited.

This purpose determined a necessity of solution the following aims:

- to study theoretical background of the process of M&A;
- to study types, classifications and strategies of M&A;
- to study methods of analysis of the economic efficiency and to research performance of the transactions;
- to analyse and assess the economic efficiency of the merger of PJSC «Rosneft Oil Company» and TNK-BP Limited;
- to analyse the main example of M&A deals in international practice, identifying the main problems;
- development set of recommendations to improve the financial results of acquisitions.

Structure of the thesis. The bachelor thesis consists of introduction, main part containing three chapters and conclusion.

Introduction part discloses the relevance of the chosen topic of thesis, includes setting the goals of the research, the aims that should be solved in order to achieve determined tasks, determination the object and subject of the research.

In the first chapter, the theoretical aspects of mergers and acquisitions were revealed. The essence of mergers and acquisitions, their types and classifications were considered. Particular attention was paid to mergers and acquisitions strategies, as one of the most important aspects related to M&A decisions.

In the second chapter, the methods of analyzing economic efficiency were presented as well as brief information of the enterprises PJSC «Rosneft Oil Company» and TNK-BP Limited. In particular, the history, structure and field of activity were studied. An assessment of the economic effect of merger was also carried out.

In the third chapter, on the basis of the materials studied, the structuring of mergers and acquisitions was disclosed, the analysis of the main examples of the processes

of M&A of companies was carried out, including identifying the main problems of transactions. Moreover, were developed ways to improve the financial results of acquisitions.

In the conclusion, all the findings and the main results of the research were summarized.

1 THEORETICAL BACKGROUND OF MERGERS AND ACQUISITIONS

1.1 The essence of mergers and acquisitions

The changes happening in world economy became a powerful factor of acceleration and extension of scales of foreign expansion, development of new, potentially perspective zones of influence, strengthening of competitive positions at the international level. The international merges and acquisitions became one of the main ways of implementation of the development strategy of the companies in modern conditions.

According to foreign approaches merge is considered as unifications of companies which could lead to formation of new corporation or joining of one of them to another (tab. 1).

Table 1 – Interpretation of the term «merger» in foreign scientific literature

Source	Definition	
K. Bowman	merger	association of shareholders within new organization where resources will be divided among themselves [1]
Gohan Patrick A.	merger	consolidation of companies of various sizes where one company joins another [2]
	consolidation	consolidation of the same size companies with the formation of a new legal entity
D. Depamfilis	merger	association of two companies as a result of which only one of them remains as the legal entity [3]
S. F. Reed, A. Reed-Lajoux	merger	merger happens when the corporation connects to another and dissolves [4]
V. A. Galanov	merger	it is process of merging of two or several joint-stock companies with creation of new

		JSC where all rights and obligations are transferred, uniting with the simultaneous termination of their activity [5]
B. Milner, F. Liis	merger	reorganization which happens by acquisition of property or property rights of other company [6]
M. V. Chechetov	merger	emergence of new society of the successor with transfer to it according to transfer acts of all rights and obligations of two or more societies and the termination of their activity [7]
Great economic en- cyclopaedia	merger	association which usually has a voluntary nature. Property and activity of two or several companies are used for creation of the new company or for merger of these companies of one of them; is the mutual contract of the management of two companies on their association [8]

In the majority of foreign editions the concept of merge and absorption is not differentiated. Very often definitions replace each other. Most often found terms: merges and acquisition, consolidation and accessions, mergers and absorptions (tab. 2).

Table 2 - Interpretation of the term absorption in foreign scientific literature

Source	Definition
Gohan Patrick A.	Hostile merger [2]
D. Depamfilis	Occurs when one company becomes the main owner and gets control over other company, its subsidiary or separate assets, for example manufacturing enterprise [3]
S. F. Reed, A. Reed-Lajoux	It is the process assuming that shares or assets of corporation become the property of the buyer [4]

V. A. Galanov	This establishment of control over joint-stock company (by redemption of its stocks) [5]
I. G. Vladimirova	Take under control one company by another, management with acquisition of the absolute or partial property right to it. Merger of the company is often carried out by buying up of all stocks of the enterprise at the exchange, meaning acquisition of this enterprise [9]

However, absorption is the general term which is used for the description of transfer of property. Merger is a narrower technical term for a certain legal procedure which can follow and can not follow absorption. Besides the term merge has nothing in common how control of the united companies will be performed after merge. It is important to take into consideration that merger is an consolidation of two corporations in which only one survives, passing assets and obligations, at the same time the absorbed legal entities or stop the existence, or are controlled by possession of a controlling stake or a share of the capital. Merge differs from consolidation where as a result can be considered situation when two or more companies unite and the new legal entity with assets and obligations of the joint legal entities is created, at the same time the legal entities which are earlier functioning stop their existence.

1.2 Their types and classifications

Considering various integration processes it is also worth considering classification of the main types of merges and acquisitions. The most important indications are [10]:

- regional and branch accessory of the company
- a way of the carried-out integration
- relation of personnel of the company to the transaction of this kind
- features of the mechanism and conditions of merge

Also it is worth defining types of merge which depend on national identity of the companies which are subject to association:

- national transactions when the target companies are registered in one country
- transnational transactions when the companies are in the different states, and entry of one of them into the foreign market is meant

At the same time it is possible to divide merges and absorption on the nature of the relation of administrative structure of the company to such transaction and thus to allocate the following types of transactions: [4]

- friendly transactions when the buyer and the seller voluntarily agree and go on the conclusion of the transaction, i.e. there is a mutual coordination of interests of two or more parties believing that it is much more favorable to it to cooperate than to counteract each other;
- hostile transactions when the board of directors of the acquired company rejects the offer of other company on buying up of their actions and opposes resolutely this merge or absorption, trying to carry out a number of actions which would interfere with occupation of their company. In such situation the getting company organizes a number of actions in the financial market, the directed achievement of the purposes and merger of the company

Considering ways of the carried-out integration of the companies, it is expedient to allocate their following types: [12]

- horizontal merges and absorption at which there are mergers of companies, the services working in one market segment and providing identical character. Such transactions happen in case the strategy directed to expansion and preservation of the market and also to improvement of technology is accepted by the companies. The acquired company often can also become only channel for advance of the current products;
- vertical merges and absorption which are connected with merger of companies, working at adjacent segments of the market whose services are supplementing. That is at merge the company buyer expands the activity by extension of the list of the provided services in the same market or involvement of new clients;

- conglomerate merges and absorption which mean merger of companies, working at different market segments and offering new products, and the transaction is directed on achievement of strategy of diversification (to creation of new products in the new markets). That is there is a merge of the companies, not being competitors;

Conglomerate merges can be divided into three main types also: [12]

- expansion of the market at merge, namely use of new channels of advance of services by acquisition of the companies in those geographical regions which were not served before;

- the expansion of the grocery line at merge meaning association of not competing products and services;

- pure conglomerate merges which are independent and are not connected with any community.

It is worth noticing that there are practically no transactions on merges and absorption which could be carried to this or that group unambiguously. Generally all transactions which pass in the USA, Europe and Russia are a combination of various types with great value of these or those motives. [13]

It is also possible to allocate such types of merge which depend on a method of association of potential: [2]

- corporate alliances when there is a merging of several companies which are based on a certain segment of business. It provides achievement of effect of synergy in some concrete direction, and in other directions of business of the company continue independent work. For such purposes joint structures can specially be created;

- corporations when there is an association of all assets of the companies which are involved in the transaction.

Also depending on the mechanism of merge or absorption it is possible to allocate the following types of acquisition: [14]

- accession of all assets and obligations at merge or absorption;

- purchase of a part or all assets with the absorbed company;

- purchase of shares with monetary payment;
- purchase of shares with payment by stocks or other securities.

It is also necessary to note that sale of a number of types of business or network of offices can be carried out upon the demand of antimonopoly authorities. In this point types and classifications of transactions on merge and absorption were in detail studied, further I consider it expedient to pass to consideration of strategy, strategic aspects are important at making decision on carrying out the transaction.

1.3 Merger Strategies

Strategic aspects are essential for making management decisions about mergers or acquisitions. The ability to adapt to macroeconomic conditions and constantly changing customer needs is a condition of survival and development of business. It is obvious that if the company does not expand scales of the activity and/or does not adapt to constantly changing external conditions, then it calls the future into question.

It should be noted that one of the most widespread motives for merge and absorption is growth. Many companies face the choice how to extend, it can be as internal growth, as a rule, very slow, or growth through by means of merges and absorption which can occur much quicker, however it much more also brings to riskovanny the uncertainty. The company can grow in the industry, and can extend, so-called diversification. As in financial area diversification is a subject quite extensive, later it will be considered separately. In the same point the attention will be focused within the "native" industry of the company.

If the company seeks to growth, it has two ways of development: internal and external. In many situations slow internal growth is not an optimum alternative. Let's review several examples. For example, when the company has an opportunity for expansion during some short time. Otherwise competitors can use a situation, quicker react and use it for increase in the share of the market that, of course, at the strong competition is not a favorable outcome of events. The situation when the company plans to expand geography of the activity can be one more example intends to leave to other region, it can be both other city, and other country. In

many cases it is more productive and less dangerous to do it through merge and absorption, especially in the conditions of the international expansion as the company needs to know all nuances of the market, to break cultural and language barriers. Merges, absorption, joint ventures and the strategic unions can represent the fastest and least risky alternative.

The second, most common strategy is synergy. The term the synergy characterizes type of interactions when the joint corporations are more profitable, than separate parts or the companies. Distinguish operational and financial synergies. The operating room in turn is divided into increasing income and reducing expenses. The operational synergy raising income, as a rule, the newly created or strengthened product which is formed by synthesis of two qualities of the uniting partners and aimed at long-term profit. Potential sources of income can occur thanks to expansion of market opportunities, cross marketing or, for example, when using reputation of larger known company for promotion of new products of the partner in merge. Though sources can be promising, it is difficult to measure synergy of increase in income, it is defined indistinctly. Potential increase in income quite often vaguely is called benefit from merge. However it is easier to show that it is possible to save from the production capacities duplicating each other, than to specifically explain increase in income from merge of two companies. For this reason when planning, the synergies relating to expenses are distinguished to a thicket.

In this situation usually look for the synergies reducing expenses as the main source of operational synergies. There are at least three points which need to be considered in this aspect. The first is economy from scale - cost reduction on products unit. As a rule at the low outputs constant expenses high as are distributed on small output. Due to growth of volumes of release of expense decrease, sometimes it is called distribution of overhead costs. Specialization of work and management, the truth can be the second source of such economy it is characteristic only till a certain moment, further the company experiences anti-economy from scale. Other concept, close connected and sometimes confused economy from coverage is – this aspect can be characterized as ability of the company to use one set of initial raw materials for production of wider range of goods and services.

Financial synergy is called the impact of merge or absorption on attraction of the capital of the absorbing company or partners in merge.

Another motive is diversification. It is necessary to understand growth of the company as diversification out of limits of one field of activity. This motive played a major role in the third wave of merges – an era of conglomerates since the enterprises for expansion used purchase of other companies more often, than internal growth. This form of merge is often facilitated by temporary rise in prices of actions absorbing the companies though actually the price increases slightly. However many firms which turned into conglomerates in the 1960-1980th were destroyed through spin-offs and dvestitures, so-called dekonglomerization. In the same time at diversification exists also the pluses. For example effect of mutual insurance at which the companies unite with not completely correlating profits and come to the general flow of profit which is not so volatile, as by consideration of streams in each firm separately. In addition there are two more economic motives: horizontal and vertical integration. Horizontal integration (horizontal integration) is called increase in a market share and market force which results from absorption and merges to competitors. Vertical integration (vertical integration) is called merge or merger of the companies which have relationship of the buyer and the seller.

There is also other motive, a hypothesis of arrogance and absorption. This hypothesis was offered by Richard Roll. [16] It considers a role which the arrogance, or arrogance, the managements of the getting company can play in an explanation of absorption. The hypothesis of arrogance assumes that managing directors seek to absorb the company for own personal motives and that the net economic gain is at least not the only and even not main motivation.

Roll uses this hypothesis, for an explanation which was already objectively estimated by the market. The management often overestimates the value of this or that acquisition, without taking in attention what is already objectively determined by market assessment, besides, their arrogance allows them to consider that their assessment is most exact. Provided that it explains the decision on absorption, then at such transactions there has to be a following:

- The price of the getting company has to fall after the market learns about absorption attempt. There is it because absorption is carried out not in the best interests

of shareholders of the getting company and does not represent effective placement them.

- Price of shares of the company purpose has to grow when there is an attempt of acquisition of a controlling stake. It has to occur because the getting company not only is going to pay a certain objective sum for the transaction, but also can pay the award exceeding purpose cost.

- The combined result of growth of cost of the purpose and falling of cost acquiring the companies has to be negative if to consider costs of absorption process implementation.

Moreover, there is one more hypothesis - "a damnation of the winner", represents an ironical hypothesis which essence is in what in fight for the target company, as a rule the one who overestimates its cost most wins against. It occurs because desire to outbid competitors prevails on objective assessment of the situation, respectively it turns out that the defeated party more was realistic about the company the purpose and the won company inclined to this hypothesis overpays much more.

It is necessary to tell about, so-called, other motives. Improvement of management, research and development and the system of distribution belongs to other motives.

A part of absorption are based on belief that the management of the absorbing company will be able to operate resources of the company purpose better. The buyer assumes that his management skills surpass the management of the company – the purpose that in turn, will allow to increase the cost of the absorbed company. It induces the buyer to pay the cost exceeding the current market price of its actions for the purpose.

The argument in favor of more high-quality management is especially convincing in cases when the large companies do offers on purchase of the growing companies, smaller by the size. Businessmen often are at the head of the small companies, however it has pluses, as a rule, this company has some unique product or service that allows to count on rapid growth of business.

Many of the decisions made by larger company demand other set of management skills, than those which led to rapid growth of the small company. The lack of ad-

ministrative knowledge and experience can be a serious obstacle for the growing company and limit its ability to compete in broader market. Administrative resources are that asset which more major company can offer the target company.

In this case there is the complexity, in the majority of cases it is impossible to define authentically what absorption are based only on this factor whereas improvement of management process as usual acts as only one of several factors at adoption by the buyer of the decision on purchase.

One more aspect is importance of research and development for future growth of many companies. Use of results of research and development of other companies and implementation of joint projects, can be joint the latest scientific ideas and monetary resources necessary for their realization. Having united, the company receives benefits in connection with economy on costs for development of new technologies and creation of new types of products.

At the same time there are enterprises which by production of a product, have no direct access to the consumer, thus, for them the aspect on improvement of distribution channels, that is to development of channels through which their products could reach of course the consumer, is relevant, making profit. Vertical merges between producers and distributors, quite often create to the competing producers the reason for concern as they can be cut off from distribution channels. Providing reliable distribution channels can critically affect success of the company.

And, at last, tax motives. The question whether they are an important factor of merges and absorption is disputable, however there are theories where tax motives play a significant role. Carla Hayne, on the other hand, empirically analysed this relation and found that "the potential tax benefits following from transfer of net operating losses and unused tax credits positively influence the profit of the reporting period of the companies participating in tax-exempt absorption, and gain of the capital and accumulation of basis of the acquired assets adversely influence the profit of the companies participating in taxable absorption". [17]

Moreover the possibility of structuring the transaction in the form of tax-exempt exchange can be the main defining factor of its fulfillment. Sellers sometimes demand the tax-exempt status as a necessary prerequisite of approval of sale of the company, inability to structure the transaction so that it was tax-exempt for sellers,

in the turn can prevent its conclusion. The tax status can be used as means of pressure from the seller at negotiations with several buyers.

Thus, theoretical aspects of such phenomenon as merges and absorption were considered. Therefore when studying these concepts I consider it expedient to study methods of assessment of cost efficiency of merges on the example of the JSC Rosneft Oil Company and TNK-BP Limited companies.

2 THE ANALYSIS OF THE EFFICIENCY OF MERGER OF THE ENTERPRISES: EVIDENCE FROM RUSSIA

2.1 General characteristics and history of PJSC «Rosneft Oil Company» and TNK-BP Limited

PJSC The Rosneft is an Oil and Gas company from Russia, the controlling stake is owned by the State joint-stock company Rosneftegaz. Relatively recently (2013), the company became one of the largest producers of oil products in the world market. And on profit volume the company took the third place in the Russian market. Full name of this company — Open joint stock company “Rosneft Oil Company”. The headquarters is in Moscow. JSC The Rosneft Is Included into the Fortune Global 500 List for 2016, and Takes in It the 118th Place from 500 Possible. By Data for the End of 2014, in the Company more than 250,000 Employees Were Registered. The Main Field of Activity of This Company, Search and Investigation of Fields of Hydrocarbons, that is Gas Production, Gas Condensate and of Course Oil. Implementation of Various Projects Directed to Development of the Sea Fields of Hydrocarbons. Processing of the Raw Materials Extracted Earlier and a Spread of the Extracted Materials in the territory of the Russian Federation and the SNG. This Company, Is Also Included into the List of the Enterprises of Strategic Purpose of the Russian Federation. It Was Created on the basis of Tangible Assets of the Disbanded Ministry of the Oil and Gas Industry of the USSR in 1991. Already in 1993, There Took Place Transformation to the State Enterprise Rosneft. September, 1995 – the company was incorporated. Also, in in the 90th, such structural divisions as were brought out of the structure of the company: ¥ — "VNK" 1994, "Onako" and "Sidanko", ¥ — "TNK" 1995, "Sibneft" of ¥1997 are oil refinery in Krasnodar and Moscow at the beginning of the XIX century, the management of the company was engaged mainly in strengthening of influence of the main office and increase in control over assets, and also in decrease in debt loads. At the beginning of the 2000th, the company obtained the license for production in Eastern Siberia. At the expense of the means received on credit, in 2004 the "Baikalfinansgroup" company was acquired. In February, 2009, between Russia and China, the contract which provides 20-year-old lines of supply of oil between

the Chinese side of CNPC and "Rosneft" from the Russian Federation was signed. In 2009, between JSC and The "Rosneft" and the Ministry of Economics of the Republic of Abkhazia, Concluded the Agreement on Supply of Oil Products for a period of 5 Years. since 2012, on a Post of the President of the Company Igor Sechin Who Supervised Fuel and Energy Complex in the Government of the Russian Federation Earlier Headed, the Former President Eduard Khudaynatov Received the Vice President's Post. the Chairman of the Board of Directors Is Andrey Belousov. in the Summer of the Same Year, Rosneft bought the black oil terminal which is located in the territory of one of the Murmansk shipbuilding plants from OSK. It is known that the cost of this transaction exceeded 30 million dollars. In February, 2012, it was declared creation of the enterprise, joint with private gas company Inter. Open joint stock company (TNK-BP) – one of the largest oil companies of the Russian Federation, and third in oil production in the country. In 2011, the company took the 235th place in the TOP of the 500th Fortune Global list.

It was based in 2003 on the basis of multinational corporation and the British BP. In due time the multinational corporation, was formed by secession of "Rosneft" in far 1995. Oil-extracting assets of "Tyumenneftegaz" and "Nizhnevartovskneftegaz" were withdrawn. And also structural parts of Ryazan Refinery. In 1997 the multinational corporation was privatized. In 2000 Onako was acquired. Same year, the Lysychansk oil refinery located in the territory of Ukraine which at that time was in a condition of official bankruptcy was acquired. In 2002, together with "Sibneft", the company acquired "Slavneft". Though purchase was made on a parity basis, the section of property and ship trials between two companies proceed to this day.

Structuring — one of the most important questions of any transaction on merge, absorption or repayment. For successful carrying out the transaction first of all it is necessary to choose a form which it will take. A wide choice of forms of carrying out the transaction (sale of assets, transfer of stock, different types of merges, tender offers, etc.) at variety of factors, essential to it (legal, tax, accounting and so forth) gives a scope for the creative planning designed to satisfy often the opposite interests of buyers, sellers, investors and creditors. However it is important to consider: in most cases, when the parties are free in the choice of structure of the transaction, to the forefront there are questions of taxation and accounting. Let's

tell, structuring the transaction in the form of sale of assets is able to allow the buyer to avoid acceptance on the balance of liabilities of the seller and the related disputes. At the same time there are also other effects: let's tell, the taxation problems which are a consequence of underestimation of warehouse stocks which in this case become problems of the seller, but not the buyer. Also questions of accounting can be crucial. Accounting of absorption as "purchases" quite often embellishes balance of the company in comparison with historical data, but worsens the profit and loss report in the future. Accounting of merge as "associations of interests" can result in opposite result. One of the most important questions: what forms can the transaction on merge, absorption or repayment take? For absorption of business three main forms are usually used: 1) purchase of assets of the company; 2) purchase of shares of the company owning assets; 3) merge of the buyer (or the person affiliated with it) with the absorbed company. The combination of several forms is possible.

For example, when at first resort to purchase of some assets of the company then merge of the buyer and the acquired company is already carried out. In some cases the transaction can include purchase of assets of one company and actions another. It occurs when the seller is the owner of both companies. Upon purchase of assets the acquired company transfers to the buyer all assets. In many cases the choice of a form of sale of assets is caused by the fact that the sold corporation is not on sale entirely, and only a part of the business realizes. For example, if the production line which was not functioning as independent affiliated business with own balance is on sale. In this case sale of assets can only be the only option of the transaction. In other cases such transaction is not obligatory, however it is chosen often in connection with the following advantages. First of all the convenience is connected with several moments concerning taxable profit. Here it is expedient to consider two situations. The first when the seller has a taxable profit owing to sale of assets. At structurization of this transaction as acquisition of assets, it is possible to save strongly as in this case the taxable base of the acquired assets rises. In case the transaction is resulted by a tax loss, it is more favorable to buyer of the company to acquire shares, but not assets. Then it assumes the full tax history of business, having kept at the same time the high level of taxable base of the bought assets. It should be noted that the fact that it is favorable to the buy-

er not always favourably to the seller. Structuring the transaction in someone's concrete interests, as a rule, the second party sustains tax losses. Quite often there is a conflict of interests which gives an active impetus to negotiations during which there is a revision of the agreement and the party find a compromise favorable to both, in case of friendly absorption.

From the legal point of view in operation on acquisition of assets the buyer undertakes only those obligations which he agreed to accept previously. As well as everywhere, the transaction of this type has also shortcomings. The first and most important — high tax payments. All transaction are assessed with a tax. Secondly, the transaction with assets usually means big financial and time expenditure what you will not tell about alternative options, first of all it is connected with legal and accounting aspects. The transaction with assets assumes legal maintenance of a transfer of each asset, including real estate objects, fixed assets, stocks and also intangible assets to which the rights under contracts, rent, patents, trademarks, etc. It can be both all assets, and their part. For the translation of some specific types of assets the acquired company prepares special documents, in particular certificates on transfer of stock, mortgages, assignment agreements, at the same time the cost of preparation of a large number of new contracts is often very high. It is also necessary to note that the transfer of the real estate is often assessed with high federal and local taxes. Thirdly, many intangible assets and the rights of rent cannot be transferred without the consent of the third party. In case of its consent which not always manages to achieve, it is expected that the third party can demand a certain payment for the consent to a cedation of the rights. If to take credit contracts in attention, it is necessary to make sure that acquisition of assets did not result in need of immediate repayment of the loans which are available for the company. Fourthly, at many companies the specifics of activity assume existence of the special licenses granted by local authorities, when changing the owner it can lead to long expensive trials and a temporary delay.

At purchase of a share the seller, transfers to the buyer the ownership to the actions in exchange for the coordinated payment. Sale of shares of the company is the most preferable form of the transaction if the tax expenses or other costs accompanying sale of assets do this option unprofitable or inexpedient. Besides tax aspects the transaction on sale of shares can have advantage when change of the

owner of assets demands the consent of the third parties which can and be not received or when the price is too high. Moreover, to implementation of the transaction with assets, the size of the company since can prevent. It can cause additional not only financial expenditure, but also temporary. As all obligations are assumed by the buyer, sellers often prefer such type of the transaction. However in practice the buyer usually seeks to secure himself against all obligations which are not opened in financial statements. In the same time it is important to allocate shortcomings of this type of the transaction. The first is in what the more shareholders participates in transactions, the it is more difficult to finish it as if to assume that the buyer wants to acquire all 100% of shares, then it has to be concluded with each of shareholders separately. In addition the case is not excluded that only one refusal can break carrying out all transaction. Besides, the transaction with actions can lead to deterioration in tax regime during the period after absorption that can be avoided only by the transaction with assets. However, if to treat transactions proceeding from reasons of payment of a federal tax, transactions on transfers of stock can be considered as acquisition of assets that will allow to receive certain tax benefits and I do not resort to a transfer of assets.

Merger - is a transaction at which one corporation is legally absorbed another therefore the company absorber assumes all assets and obligations of the absorbed corporation on the balance. Separate transfer of assets or obligations does not happen. All transaction is carried out according to precepts of law, and the certificate of the transaction on merge is registered the public authority authorized on that. In case of so-called reverse merger (reverse merger) the buyer is absorbed by the acquired company. Shareholders of the buyer receive shares of the acquired company, and the stipulated compensation is paid to shareholders of this company. For federal taxation the return merge is often treated as the transaction with actions. At so-called forward merger (forward merger) the buyer absorbs the acquired company, and shareholders of the last exchange the shares at previously agreed price of repayment. As a result of the transaction the buyer assumes all assets and obligations of the acquired company. In terms of federal taxation such transaction is considered as follows: the acquired company sold the assets at the purchase price then it self-destructed, having distributed between shareholders the revenue received from a sale similar to process of liquidation of the companies. In

spite of the fact that at both forms of merge assets are transferred equally and quite easy way, it should be noted: at forward merge they finally appear in a new corporate cover.

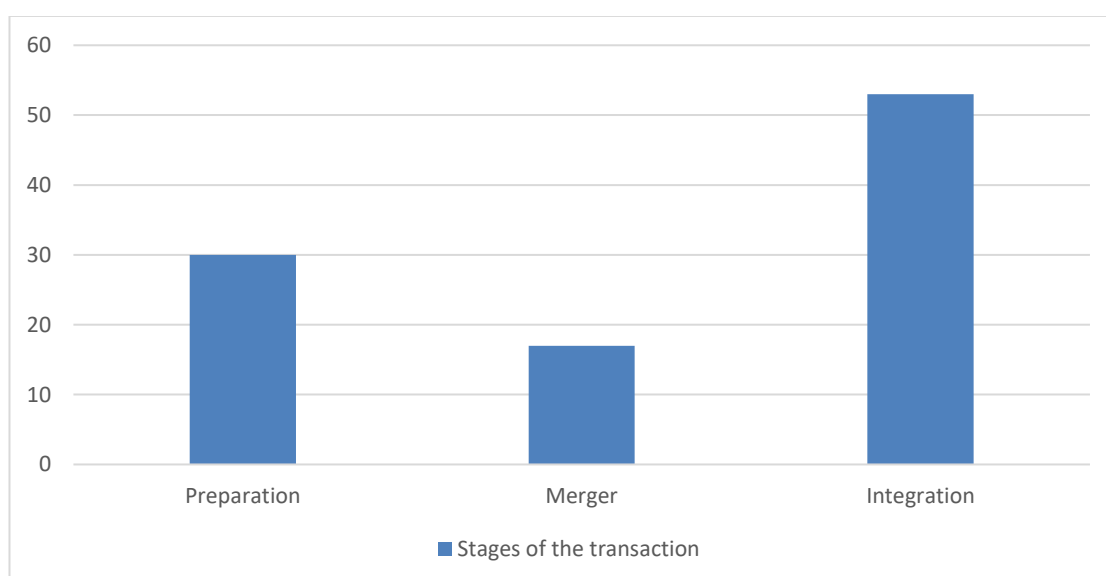
Subsidiary merger (subsidiary merger) is that case when the buyer creates special subsidiary which merges after that with the acquired company. At so-called reverse subsidiary merger (reverse subsidiary merger) such subsidiary is absorbed by that company which the buyer wants to acquire. At forward subsidiary merger (forward subsidiary merger) the subsidiary absorbs the sold company. It should be noted: the return affiliated merge has one very important and simple advantage. At observance of certain conditions it is allowed to the taxpayer using the return merge to treat this operation as the transaction with assets, respectively there is an opportunity to avoid the problems connected with their translation, having kept at the same time tax advantages of this look. The transaction on merge possesses several advantages similar to the transaction with actions. First of all it is simplicity and an opportunity to avoid problems connected with a transfer of assets. Besides, the agreement on merge is concluded only with the acquired company. Moreover, it has to be approved by the simple or qualified most of shareholders, the consent of 100% of shareholders in this case is not required, need to work with each shareholder personally respectively disappears. The shareholders opposing the transaction on merge are forced as that is demanded by the law, to obey to the majority. And legal protection is also provided to oppositional shareholders, and for them there is legislatively affirmed "right for expression of disagreement". Besides transactions on merge are the best option for the creditor when shares are redeemed with use of borrowed funds. In this case the creditor issues a loan of the company successor, receiving a certain share of assets of this company in its providing. The loan is used for compensation payments to shareholders of the absorbed company. In some situations the transaction on stock acquisition is combined with merge, and it can occur in a different order.

In the first case there is an acquisition of a certain part of stocks of the company (usually not less legislatively established majority), and on the second — merge to this company. Such system makes sense if the buyer intends to pay the owner of a controlling stake for a cession, and at the second stage, already having the right to vote, votes for carrying out merge. The remained shares will be redeemed at

the smaller price. As the second example of such transactions, it is possible to take a situation when compensation is paid to a certain circle of shareholders in a non-monetary form. Then at the first stage in transactions the limited circle of people participates, and already at the second stage there is a full merge and monetary compensation is paid to the rest. Such scheme makes sense, in the presence at a company with a large number of natural persons of shareholders. Special attention should be paid to tax planning where the buyer and the seller do not coincide. In most cases the tax plan, the most favorable to the buyer appears the least suitable for the seller. As a rule, the cost of assets and a tax burden are interconnected therefore at any change also the transaction price changes. Therefore, when planning the transaction all its participants try to minimize the cumulative tax expenses. At the same time the tax burden is distributed between the parties by means of adjustment of the price of the transaction. Other important question which often should be solved at transactions on absorption — the choice of legal form of the enterprise. Besides, it is necessary to determine the amount of payment of compensations to management of the absorbed company and also to consider a question of its participation in the new company.

Other important question that should be considered is the choice of legal form of the enterprise. Besides, it is necessary to determine the amount of payment of compensations to management of the absorbed company and also to consider a question of its participation in the new company.

Figure 1 - Degree of risks at various stages of process of merges and acquisitions



The table shows in percentage a share of risks at different stages of the transaction on merge or absorption.

There are several stages of carrying out the transaction. The choice of this or that depends on a number of factors: the parties who acts as the initiator of the transaction (the seller or the buyer) what companies unite (public or private) how many parties participate in negotiation process (a controlled auction or bilateral process) are how friendly.

If these rules are not followed, then there is a risk or to disorganize potentially advantageous transaction, or having suggested to overpay for an asset, for example, too high price at an early stage when there is no sufficient volume of information yet.

Practice allocates the main stages of transactions M&A:

- Choice of the company purpose. Expert assessment of the absorbed corporation on economic, financial and legal performance (due diligence). At this stage the approximate market value of the company purpose is calculated.
- The negotiations of the parties necessary to define the main paragraphs of the possible agreement on the transaction M&A (merges and absorption).
- Execution of the agreement on intention of the company buyer to conclude the bargain M&A with the company purpose (with obligations of the company purpose to provide the relevant information).
- Comprehensive analysis of legal, financial and administrative documentation (due diligence). At this stage the fair market value of the company purpose is calculated.
- Negotiations for achievement of the final agreement on the transaction price M&A between shareholders, participants (owners) of the companies.
- Structuring transaction M&A.
- Closing of the transaction on merge and absorption. In some cases after closing of the transaction it is publicly announced. At this stage perform final financial settlements, a re-registration of the rights for assets and payment of commissions and so forth.

In March, 2013, "the Rosneft got 100% a share of assets of TNK-BP Limited.

During transactions of JSC Rosneft separately got:

¥50% of a share in TNK-BP Limited and TNK Industrial Holdings Limited at the BP Company. The cost of acquisition consisted of monetary compensation of 16.65 bln. dollars and also 1,360,449,797 treasury shares of JSC Rosneft (12.84% of authorized capital of the Company) at the rate of 8 dollars for one action;

- 50% of a share in TNK Limited and TNK Industrial Holdings Limited at consortium AAR for monetary compensation of 27.73 bln. dollars.

As a result of the specified transactions of JSC Rosneft received indirect control over the Novy Investments Limited company (the shareholder of JSC TNK-BP Holding) to which belonged 14,473,105,831 ordinary and 149,858,185 preference shares of society (that made 94.67% of authorized capital and 96.51% of total number of voting shares of JSC TNK-BP Holding).

In 2013, shareholders of holding of multinational corporation, at a general meeting approved the charter of the new editorial office according to which, multinational corporation it was renamed into JSC RN Holding. In February of the same year, 10% of stocks of RN Holding, were resold to the third parties who do not have any relation to Rosneft for slightly less than 100 billion rubles.

On November 6, 2013 JSC Rosneft made the Voluntary proposal on acquisition of the securities of JSC RN Holding belonging to not controlling shareholders in total:

- 1,918,701,184 common stocks;
- 450,000,000 preference shares.

Were acquired 1,873,812,294 ordinary registered shares, 424,213,339 preference registered stocks at the price of 67 rubles for 1 ordinary registered share and 55 rubles for 1 preference registered stock were acquired.

In 2014 PJSC Rosneft Oil Company completely got everything the securities which were available for the small, not controlling shareholders. As result of PJSC Rosneft Oil Company, there were 100% the owner both exclusive (nominal), and ordinary actions of JSC RN Holding.

2.2 Assessment of economic effect of merger of the company TNK-BP Limited by the PJSC "Rosneft Oil Company"

The leading consulting companies, such as KPMG and McKinsey, regularly conduct researches in order to find out that the main problem of total efficiency of merger of one company another (for example larger), is an accurate assessment of the price of the transaction.

The table given below will help to reveal factors which define financial effectiveness of carrying out the transaction. It includes 5 stages.

Table 3 - Model of assessment of financial effectiveness of the transaction

Stage	Content	Indicator
I	Assessment of investment attractiveness of the parties of the transaction	Profitability (ROA, ROE, ROIC, ROS) ; turnover; financial stability; investment attractiveness
II	Estimation of cost of the company purpose and company buyer	The cost of the company on the basis of the chosen assessment method
III	Estimation of cost of the united company together with synergy effect	The cost of the company on the basis of the chosen assessment method; the present value of synergetic effect
IV	Estimation of efficiency of activity of the united company	Profitability (ROA, ROE, ROIC, ROS) ; turnover; financial stability; investment attractiveness
V	Determination of financial effectiveness of implementation of the transaction	Net synergetic effect; a ratio of the present value of synergetic effect and the sum of costs for merge and absorption; ratio of the price of the transaction and cost of the company purpose; ratio of the sum of excess of the price of the transaction over the cost of the company purpose and sum of pure synergy

Because the transaction was carried out in 2012-2013 respectively below the analysis of cost efficiency of acquisition will be carried out, using financial statements for these years.

The first stage is objective assessment of investment attractiveness parties of the transaction.

Table 4 - Indicators of profitability of PJSC Rosneft Oil Company before and after non-hostile acquisition, %

Indicator	PJSC Rosneft Oil Company before	PJSC Rosneft Oil Company	TNK-BP Limited	Average industry
ROA	7,1	8,84	24,2	6,07
ROE	17,25	15,05	31,18	12,38
ROIC	9,09	7,86	27,54	9,75
ROCA	42,16	37,07	76,29	Max
The coefficient of profitability of the main activity	13,9	14,17	24,76	Max
ROS	10,38	11,08	16,25	9,86

Table 5 - Indicators of business activity of PJSC Rosneft Oil Company before and after non-hostile acquisition

Indicator	PJSC Rosneft Oil Company before	PJSC Rosneft Oil Company after	TNK-BP Limited	Average industry
Turnover of assets	0,68	0,8	1,49	0,85
Capital productivity	1,36	1,25	2,45	min
Turnover of current assets	4,06	3,35	4,69	2,93
Turnover of equity	1,66	1,36	1,92	1,71
Turnover of stocks and expenses, days	12,49	20,46	10,86	24,51
Turnover of receivables, days	33,59	28,91	63,59	123,67
Turnover of accounts payable, days	31,94	29,39	21,37	120,56
Operational cycle, days	46,08	49,37	74,45	148,18
Financial (clean) cycle, days	14,14	19,98	53,08	27,62

Table 6 - Indicators of financial stability of PJSC Rosneft Oil Company before and after non-hostile acquisition

Indicator	PJSC Rosneft Oil Company before	PJSC Rosneft Oil Company after	TNK-BP Limited	Average industry
WC, bln dollars	5	15	6	-
Security of stocks and expenses with sources of their formation, bln dollars	0,6	11	4	-
Security with own working capital	0,12	0,54	0,52	0,4-0,6
Maneuverability coefficient	0,05	0,22	0,21	0,09
Autonomy coefficient	0,41	0,59	0,78	0,5
Coefficient of financial leverage	1,36	0,52	0,32	<1
Coefficient of short-term debt	0,15	0,12	0,14	-
Coefficient of dependence of the capitalized sources	0,52	0,25	0,1	-

It is essential to begin with the analysis of profitability. In general total assets of the companies of JSC Rosneft Oil Company and, are used by JSC TNK-BP Holding more effectively, than on average the companies have industries, and profitability of total assets of JSC TNK-BP Holding is 4 times more than branch value and is 3 times more, than at JSC Rosneft. Capital of shareholders at the company purpose is used almost twice more effectively in comparison with JSC Rosneft. Also profitability of the invested capital at JSC TNK-BP Holding is 2-3 times more, than at all branch analogs, including JSC Rosneft.

It should be noted that similar indicators of profitability on primary activity, and also reverse assets, are caused by specifics of this industry, but not successful activity of the management of the company.

If to consider all possible groups of indicators, then to multinational corporation and all holding in general, it is necessary to give a positive assessment as indicators of the given company are higher than average values of the industry and company of the buyer, that is Rosneft.

As for efficiency of activities for turnover in general on total and current assets and also on fixed assets at JSC TNK-BP Holding above, than on average in the industry and JSC Rosneft, almost by 1.5-2 times. However, in spite of the fact that at the company purpose the turnover of stocks is two times higher, duration of a turnover of receivables on 35 дн. it is more that increases an operational cycle and reduces efficiency

If to speak about duration of a turnover of credit debt, then it rather small (8 дн.) therefore if to consider this process in terms of a financial cycle, then it turns out that "the Rosneft is more effective. By the way, on this indicator, the value of multinational corporation is on average worse, than at other industry members.

One more positive side, the fact that multinational corporations and "Rosneft are quite steady from the financial point of view as their own working capital positive is. The security coefficient at these companies 10 times more, than standard value which is included in the legislation on bankruptcy, not less than 10% and is much higher than an indicator in the industry. If to speak about investments made in liquid assets, then they make only the fifth part that it is simpler, than at most of competitors.

Financial stability of multinational corporation, 10 times more than at Rosneft, tells high coefficient of autonomy which displays equity percent in total assets about it.

At TNK-BP Holding, the level of financial leverage is lower than at "Rosneft. It means that financial risks of this company are simply minimum, it also has high loan potential.

Therefore, for increase in financial stability "the Rosneft, quite logical step will be absorption of TNK-BP Limited, for this purpose at the I stage absorption is proved.

The following stage is establishment of cost of the buying company and company purpose as the independent legal entity.

There is a lot of approaches to assessment of the company, but nevertheless it is possible to allocate three main, they also are reflected in the table below. These are expensive, comparative and profitable approaches.

Table 7 - Methods of assessment of the companies

Expensive approach	Comparative approach	Profitable approach
Method of net assets	Method of the companies analogs	Method of the discounted cash flows
Method of liquidating cost	Method of retrospective transactions	Method of capitalization of income
	Method of branch coefficients	Method of capitalization of dividends

If to speak about this case, then at estimation of cost profitable approach will be used. According to profitable approach, the cost of business is determined by the current cost of future economic benefits which will be received from possession of the specified business. Profitable approach is based on assumption that the person who invests in business of means will not begin to pay for it more, than the current cost of the cash flows expected in the future. The specified cost is determined on the basis of a formula:

$$V_0 = \sum_{t=1}^n [CF_t / (1+r)^t] + TV / (1+r)^n,$$

where V_0 is the current cost of the expected cash flows ($t=0$);

CF_t is the expected cash flow at the time of t ;

r is a discount rate or size of the required return on the capital;

TV is terminal value.

It should be noted that each of the presented estimated methods, has own application at assessment of final cost of the company, for example for its further reorganization. At the same time, the most progressive and universal method of as-

assessment of the company (for example for further acquisition), is the classical method, that is discounting of cash flows which are regenerated by the company. It is possible provided that the decision on merge is of strategic importance for the company buyer, that is orientation to the next, and also distant future.

Application of this method, requires creation of the special forecast which will allow to count all cash flows for a certain period. It considers such factors as profit, return of proceeds of credit, taxes, operational expenses, support of the target capital, investment, etc. Also, it is in addition necessary to count the cost of the expected monetary receipts during the period which will come after the forecast, that is it is necessary to calculate both terminal and residual value.

The discount rate is degree of profitability to which the investor would agree during making decision on whether it is necessary to make investments in this company. The higher than some of emergence of risks, the big degree finally the investor will demand from the seller. It means that calculation of a rate for discount, it is necessary to carry out in connection with investment of capital to concrete assets.

For definition of a discount rate, it is necessary to carry out the analysis of return on various alternative investments, considering all possible risks which can arise in connection with receiving a fresh cash flow.

For definition of a line discount rate, there are some of very effective methods and models for definition. The most effective and at the same time widespread of them, are:

- model of weighted average cost of capital (WACC - Weighted Average Cost Capital).
- method of cumulative construction;
- model according to capital assets (SARM - Capital Asset Pricing Model);

When discounting, calculating a rate can depend directly on what of types of cash flows is actively used at present, invested or own.

The method of cumulative distribution, or SARM, is actively used for estimation of cost of equities, and model of weighted average cost – for estimation of cost of the investment capitals.

As soon as the discount rate finally is defined, it is necessary to discount at once future income to attract them to the current cost. Total value of all streams of discounting, business cost is (whether it is constructed on loan equity). It in that case if the model of debt-free streams of means, or the current cost of all streams of means is applied.

If in the first of the presented cases, the cost of the credit is calculated also the current cost of business, for obtaining net value of the capitals.

For check, it is possible to use comparative approach, it is used for detailed assessment of public information. And such method as profitable approach, works at the expense of a detailed miscalculation of all of revenues of the company possible in the future. Advantage of this method, the high speed and simplicity of application, especially, is if both participating parties of the transaction, are the public companies, the basic information about them is in free access. Plus, also they can have several companies of analogs on which it is possible to count approximate cost.

Comparative approach is based on that assumption that the cost of the capitals and tangible assets of the company, can be estimated by the detailed analysis of the prices on which shares of the similar enterprises are sold.

At the first stage of comparison, the list from the necessary similar companies is created, it is possible to make it having used various criteria of comparison. Determination of criteria, leans on assessment of conditions, plus, on availability of information, necessary for the analysis. For example, such criteria, branch means, types of service which are provided by the company, a financial state for this period of time, and also geography of sales markets of the similar companies can serve.

Probably, the most difficult stage of comparative approach, assessment of similarities between the considered company, and the company an analog on the basis of which data the analysis is carried out is. The final cost of the company, very often, it is rather even in most cases, depends on the nature of specifically taken situation, that is in fact can be unique in own way.

Plus, for assessment of the enterprise, it is necessary to apply some adjustments which actually and are necessary for accounting of all possible distinctions.

At comparative approach, one of tools for determination of approximate cost, are so-called "estimated animators", or estimated coefficients.

They are reflection of actual market price of the enterprise with other indicators which can characterize financial or production activity, for example: for example: EV/EBITDA; EV / Revenue; Price / Net profit; Price / Book value.

For assessment of total cost of business, the expensive method is quite often applied, and the miscalculation of cost of net assets is more concrete. Such approach is based on the market value of all assets of the enterprise at the moment, but also in addition considers also future income, and also a situation in the market. Most often, similar approach is used at a miscalculation of cost of those enterprises for which it is difficult or very problematic to predict future income. It can happen because of specifics of activity of the company, and also for those companies which are on a bankruptcy threshold.

Let's carry out estimation of cost of the studied companies by the method of the discounted cash flows (tab. 9,10) and by method of the companies analogs.

Table 8 – Estimation cost of PJSC «Rosneft Oil Company», mln dollars

Source	Date	EV
LLC Uralsib Capital	19.04.12	85 841
LLC UK Raiffeisen Capital	18.04.12	86 128
Société Générale bank	18.04.12	87 070
IK "Renaissance Capital"	19.04.12	87 461
LLC Morgan Stanley Bank	18.04.12	86 427
CJSC VTB Capital	18.04.12	88 996
IB "Otkrytiye Capital"	18.04.12	85 179
EV median	-	86 427
Net debt	-	16 950
Share of minority shareholders	-	1 056
Equity	-	68 421

Table 9 - Estimation cost of TNK BP-Limited, mln dollars

Source	Date	EV
CJSC Bank Credit Swiss	19.04.12	53 162
LLC UK Raiffeisen Capital	18.04.12	56 836
Société Générale bank	18.04.12	54 050
IK "Renaissance Capital"	19.04.12	52 879
LLC Morgan Stanley Bank	18.04.12	51 220
CJSC VTB Capital	18.04.12	54 401
IB "Otkrytiye Capital"	18.04.12	53 433
EV median	-	53 433
Net debt	-	2 770
Share of minority shareholders	-	1229
Equity	-	49434

Table 10 - Estimation cost of the Russian companies using comparative approach for 31.04.2012.

Company	Capitalization, bln. dollars	EV, bln. dollars	Financial multipliers			
			EV/EBITDA (2011)	EV/EBITDA (2012)	EV/Revenue (2011)	EV/Revenue (2012)
JSC "LUKOIL"	53,4	24,7	3,0	3,4	0,4	0,3
JSC Gazprom Neft	23,6	9,4	3,1	3,5	0,7	0,8
JSC Surgutneftegas	37,7	11,7	0,8	0,9	0,3	0,3
JSC Gazprom	117,7	61,7	2,6	2,7	1,0	1,0
JSC Tatneft	14,3	3,6	4,8	5,1	0,8	0,8
JSC NOVATEK	32,9	35,5	13,6	12,4	7,1	5,6
JSC Bashneft	11,5	3,1	4,6	5,3	0,9	0,9
Min	-	-	0,8	0,9	0,3	0,3
0.25 quantile	-	-	2,8	3,1	0,5	0,6
Average value	-	-	4,6	4,8	1,6	1,4
0.75 quantile	-	-	4,7	5,2	0,9	0,9
Group max	-	-	13,6	12,4	7,1	5,6

For JSC Rosneft Oil Company the following data are obtained:

- profit volume before depreciation charges of EBITDA - 22,023 million dollars;
- a limit of financial multipliers - from 3.05 to 5.20;
- a limit of cost of the EV company - 67,170 - 114,520 million dollars.

For JSC TNK-BP Holding:

- profit volume before depreciation charges of EBITDA - 11,594 billion dollars;
- a limit of financial animators - from 3.05 to 5.20;
- a limit of cost of the EV company - 35,362 - 60,289 billion dollars.

Making a start from data of the carried-out assessment, it is possible to draw the following conclusions. "the Rosneft makes the cost of the internal capital 68,421

million dollars, at the same time as the cost of multinational corporation - 49,434 million dollars. It is important to note that these costs, completely correspond to test limits which are specified in comparative approach.

The third stage is an establishment of cost of the united company when accounting synergy. This stage also assumes calculation and forecasting of functioning of already united company.

1. The cost of the company after the transaction is determined by the same method which was used for calculation of cost of the company purpose and the company - the buyer before merge.

Table 11 - Estimation cost of JSC Rosneft Oil Company by method of discounting of cash flows after the transaction (on 31.03.2014), mln dollars.

Source	Date	EV
LLC Uralsib Capital	03.03.14	171 540
IK "Renaissance Capital"	01.03.14	176 744
Société Générale bank	03.03.14	170 365
CJSC Bank Credit Swiss	03.03.14	179 879
LLC Morgan Stanley Bank	01.03.14	171 742
CJSC VTB Capital	01.03.14	178 122
IB "Otkrytiye Capital"	03.03.14	170 024
EV median	-	171 742
Net debt	-	50 969
Share of minority shareholders	-	2 098
Equity	-	118 675

Table 12 - Estimation cost of the Russian companies comparative approach after the transaction (on 31.03.14)

Company	Capitalization, bln. dollars	EV, bln. dollars	Financial multipliers	
			EV/EBITDA (2013)	EV/EBITDA (2014)
JSC "LUKOIL"	42	49	2,8	2,5
JSC Gazprom Neft	19	27	2,9	2,9
JSC Surgutneftegas	33	5	0	0
JSC Gazprom	96	136	2,3	2,4
JSC Tatneft	13	13	3,7	3,6
JSC NOVATEK	37	39	10,4	9,1
JSC Bashneft	10	13	4,2	4,1
Min	-	5	0	0
0.25 quantile	-	13	2,55	2,45
Average value	-	40	3,76	3,51
Median	-	27	2,9	2,9
0.75 quantile	-	44	3,95	3,85
Group max	-	136	10,4	9,1

For JSC Rosneft after the transaction the following data are obtained:

- profit volume before depreciation charges of EBITDA - 42,712 million dollars;
- a limit of financial animators - from 2.45 to 3.85;
- a limit of cost of the EV company - 104,644 - 164,441 million dollars.

It is necessary to understand that the internal cost of the company (integrated), can exceed the limit considerably of its market value which was calculated with use of comparative approach.

This indicator is directly connected with high political risks which were caused by the "Ukrainian crisis". Therefore assets of all Russian companies are strongly underestimated at present.

2). At this stage, key factors which form the final cost of the united company reveal: the amount of operating profits before write-off of depreciation charges of EBITDA, and also the amount of investment profit of EBIT, plus, the amount of net profit of FCFF.

3). Process of creation of the detailed reporting of the company purpose (multinational corporation), and also the companies buyers (Rosneft) which displays all data obtained from merge begins. The similar reporting is formed

taking into account at once several scenarios according to which sales volume, net profit, debt loads, and also costs of loan is formed.

Financing of this transaction was carried out by JSC Rosneft in the mixed form: the first shareholder (BP) of the company purpose received shares of JSC Rosneft and money, and paid to the second shareholder (ARR) only money. And BP reinvested a part of the received money in purchase of an additional share in JSC Rosneft from JSC Rosneftegaz.

Therefore, the cost of the Vcd united company is more than total cost of the Vn company buyer and company purpose of Uts before merge (118.68 million dollars > $68,421 + 49,434 = 117,855$ million dollars) that demonstrates existence of synergetic effect (820 million dollars) and prevalence of positive factors of formation of synergetic effect which are generated by JSC Rosneft and JSC TNK-BP Holding.

At the fourth stage, there is assessment of effective activity of the company after association. Many indicators components of profitability, and also financial stability of the enterprise and business activity are estimated and analyzed.

Key financial performance "by Rosneft after completion of the transaction on merge is predicted. The forecast of key indicators is presented in the table from below, comparison will be carried out with data for 2014 though the company and began to spread the reporting from the 2013th. There is it because because of the become complicated post-integration period, the synergy could fully it will be shown only in a year.

Table 13 - The forecast of the key financial performances of PJSC Rosneft Oil Company for 2014, bln dollars.

Indicator	Sum
Proceeds (net) from sale of goods, products, services, works (minus excises, a value added tax and similar obligatory payments)	157,07
Operating profit before interest and taxes	19,16
EBITDA	32,35
Net profit (or losses)	13,46
Net assets	168,8
Equity	94,53
Weighted average cost of capital, %	10,8
Cash flow	28,53

Thus, according to the forecast, operating activities of the company after association will be profitable, its equity will grow by 28.7%, net assets will increase more than twice, capital cost will increase by 1.4%.

After implementation of the transaction of absorption not all indicators of profitability of JSC Rosneft will increase, including profitability of total assets will decrease by 1.74%, and profitability of equity, on the contrary, will show growth by 2.20% that speaks about effective use of own means by the company. Also It should be noted that growth of profitability of the invested capital (1.23%) demonstrates that if not to consider a debt load which resulted from large crediting then the company will increase the efficiency of capital utilization at the operational level.

Profitability of sales, exactly as well as profitability of total assets can considerably will decrease after the conclusion of the transaction. There is it for the reason that expenses on repayment of an external debt increase. It is profitable current assets will grow many times, approximately by 5.10%, it also is an objective indicator of effective use of funds of the united company.

Despite that Fak that this transaction nevertheless has some negative indicators if to speak in general, then the profitability coefficient nevertheless is higher, than at most of representatives in the industry.

In case of the optimistic scenario the turnover of the capital and resources has to increase (tab. 8). First of all it will concern working capital which is invested in expenses and stocks, however turnover of total assets, as well as their profitability, will be reduced most likely because of the big debt which appeared after financing of the transaction.

Duration of a turn of stocks and expenses will decrease almost for eight days that speaks about efficiency of operating activities of the company. In general the operational cycle will be reduced by three days, and duration of a turnover of accounts payable to increase for 2.5 days. Reduction of a financial cycle, on the one hand, releases additional money which can be put into circulation, and with another - worsens liquidity of the company.

The analysis of financial stability of JSC Rosneft after merger of JSC TNK-BP Holding by it showed that the company remains financially steady.

Proceeding from what for acquisition of multinational corporation, the company attracted loan the capital indicators of financial stability will decrease in comparison with the company to merge. But, nevertheless, the general scale of activity, and also potential "the Rosneft, allows to say that it without especially risk of the company will be able to improve further the financial stability. From all this it is possible to draw a conclusion that at this stage the predicted financial effectiveness after merge of the companies grants the right to consider the transaction effective.

Table 14 - Indicators of financial effectiveness of implementation of the transaction of non-hostile acquisition

Line	Indicator	Value
Source data		
1	Cost of the united company	118,68
2	Cost of the company purpose	49,43
3	Transaction value	56,06
4	Transaction costs of the buying company	1,12
5	Award which is paid to owners of the company purpose	6,63
Indicators of financial effectiveness		
6	The present value of the synergetic effect, bln. dollars	0,82
7	Net synergetic effect (line 6 + line 2 - line 3 - line 4), bln. dollars	(6,93)
8	Merge process costs (line 4 - line 5), bln. dollars	7,75
9	Ratio the present value of the synergetic effect divided by merge process costs (line 6/line 8)	0,11
10	Ratio transaction value divided by cost of the company purpose (line 3/line 2)	1,13
11	Ratio award which is paid to owners of the company purpose divided by Net synergetic effect (line 5/line 7)	(0,957)

Thus, unlike the expected results, the positive financial effectiveness of the carried-out transaction is absent now:

- there is no net synergetic effect, transaction costs of the buyer and payment for the company purpose exceed the cost of the company purpose and the present value of the gained synergetic effect;
- PJSC Rosneft Oil Company paid an award to owners of the company purpose;
- calculated on the basis of ratio of the sum of excess of the price of the transaction over the cost of the company purpose and sum of synergy effect whose value is in the range of $0 < x < 1$ (0.957), the synergetic effect is distributed in favor of the company purpose more than for 50 %.

3 ENHANCE THE EFFECTIVENESS OF ACQUISITION TRANSACTIONS

3.1 Analysis of the international experience of processes of mergers and acquisitions of the companies and identification of the main problems

Based on financial analysis of PJSC Rosneft Oil Companies and TNK-BP it can safely be said that subjects of the transaction were financially steady companies. Moreover, the company purpose surpassed the company buyer in many financial indicators. This fact can be related with the high level of management and the marketing system of the enterprise. It is logical to assume that, absorbing the company with a steady economic state, the company buyer has to improve own situation in the market.

The factor on which the efficiency of the transaction depends is the sum paid by the company buyer of the company purpose. The award for control over the company entirely destroyed effect of synergy. Having overpaid for the company purpose, Rosneft redistributed a prize from the transaction in favor of shareholders of TNK-BP. The transaction of absorption between Rosneft Oil Companies and TNK-BP is a fine example of the fact that even with effect of synergy the end result of the transaction M&A can be inefficient for the company buyer.

The received results appeared below market expectations of 2012 as when calculating fundamental cost of the companies such external factors as depreciation of oil and a consequence of sanctions against the systemically important enterprises of the country were considered. The above-mentioned phenomena promoted reduction of flows of free money and rise in price of the capital that in a consequence negatively affected prospects of the companies. The contribution to the end result of absorption was made also by management of Rosneft Oil Company. First, extremely unsuccessful moment of the transaction was chosen. The period 2012 – 2013 was characterized by the high cost of the oil companies that was a consequence of high cost of hydrocarbons. Secondly, purchase of all company in the mildest terms pushed Rosneft to use borrowed funds of \$31 billion that in a consequence seriously increased a debt load. Gradual absorption could be the

alternative decision: 50% of stocks in 2013 and to get the rest in several years. The lack of a clear understanding about sources of synergy and real time of realization of the expected benefits from the transaction could be the third cause.

Thus, the effective transaction M&A is a consequence of a set of factors without which control it is difficult to achieve effect of synergy. The example of Rosneft and TNK-BP clearly demonstrates the importance of the correct definition of trends of development of the market and calculation of fair value of the company purpose for creation of the effective transaction M&A. For increase in efficiency of transactions on merger of the enterprises it is expedient to consider the international experience in this sphere, to carry out the industry analysis and to reveal the main problems which the enterprises face by means of their overcoming the JSC Rosneft Oil Company will be able correctly to carry out as a result process of integration after the announcement of the transaction and to come to an estimated profit of 5-10 billion dollars within the next five years.

The international nature of managing of multinational corporation assumes active work of improvement of forms of the organization of the international business. Intense competition, search of ways of access to cheap resources and factors of production forces multinational corporation to diversify forms of the organization of foreign activity. In the strategy of an exit of production for national borders of multinational corporation widely use the international streams of direct foreign investments, formations of strategic alliances, creation of joint ventures. The important place in the strategy of multinational corporation is played by joint-stock forms of development of their activity, in particular, because of merge and absorption.

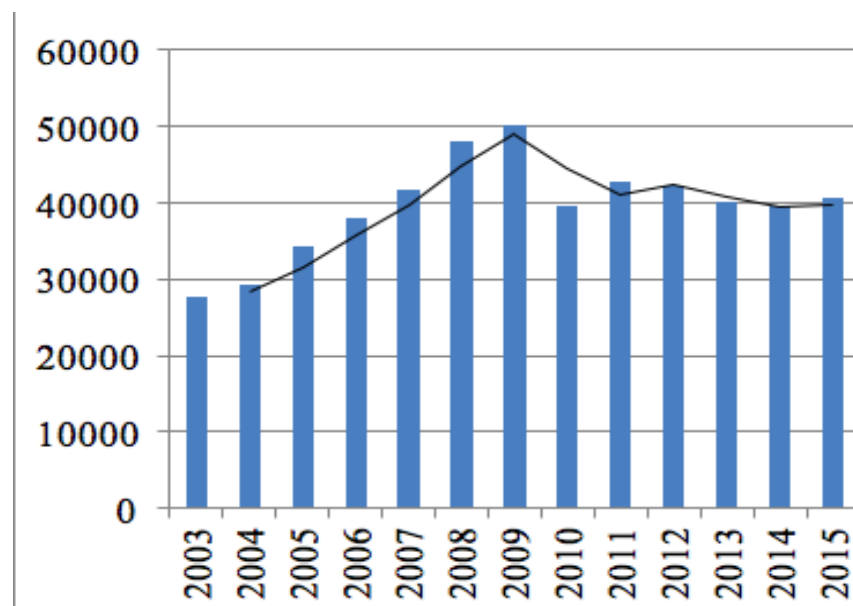
Of course, processes of merge and absorption which take place in modern conditions are not comparable to last. Now growth of cost of transactions and their quantity demonstrate that the strategy of merges and absorption actively take root multinational corporations for development and expansion of the production. It is the most common form of direct foreign investments and at the same time important development strategy of multinational corporation, guarantees them successful functioning in the conditions of the national and international competition, provides protection of interests of the companies and strengthening of their competitive positions. [19]

Formation of trends of development of merges and absorption in world economy is carried out at vigorous activity of multinational corporation. What promotes activation of the companies to growth of such transactions? In scientific works of domestic authors a number of the motives inducing the companies to the current merges and absorption [20] [21] [22] is allocated: it is necessary to distinguish the following from the main motives:

- Obtaining synergetic effect. The companies after association become more competitive, their assets rise in price, especially, when the companies possess complementary resources. The cost of the consolidated companies becomes more, than the sum of two parts (the known effect " $1 + 1 = 3$ "). It is shown in reduction of expenses and increase in profitability and allows to increase efficiency of functioning of new business [23];
- Diversification of activity of the company. It gives the chance to invest excess resources in other types of business, to increase the outputs;
- Motives of monopolization. For the purpose of strengthening of the monopoly position in the market, deprivation of participation in it of the competitor of the company is carried out by transaction transactions;
- Tax motives. The companies carry out processes of merge and absorption with the purpose to receive economy on tax payments. The new corporation is created uses tax benefits which were characteristic of the target company;
- Acquisition of the underestimated asset. Desire of the company to acquire assets at the price which is lower than market value, is explained first of all by adverse conditions the capital market and also an opportunity to resell these assets in the future at more favorable price;
- Use of results of research and development of other companies and implementation of joint projects. By means of merges and absorption the latest scientific ideas and monetary resources necessary for their realization can be integrated. Having united, the company receives benefits in connection with economy on costs for development of new technologies and creation of new types of products.

Statistical data demonstrate that realization of this strategy is relevant now. The number of transactions and their cost grows in recent years. Top trends of quantity and cost of cross-border merges and absorption are given in fig. 2. Their dynamics quite fully reflects a condition of global economy and mood of the market in general.

Figure 2 - Dynamics of volumes of merges and acquisitions in 2003 - 2016, Trillion dollars



World volumes of such transactions in 2016 were 43.6% higher, than in 2015, and now is the highest since the sharp growth of number of transactions which was observed before global financial and economic crisis.

According to the Dealogic agency, made the number of transactions in 2016 48124 which sum in a year was 5.0 trillion US dollars. [24] The fact that increase in volume of transactions after each falling always exceeds the level which was observed before falling is obvious.

World financial and economic crisis negatively influenced processes of merge and absorption. In 2009. Their cost fell almost to level 2004 during 2010-2013. Dynamics of merges and absorption had spasmodic character, but nevertheless did not reach values of the pre-crisis period of development of world economy. Prolonged crisis of the eurozone and threat of "a financial collapse" to the USA and also re-

cession in growth rates of developing countries, held the companies from active actions according to the conclusion of transactions on merge and absorption. [25]

As a result, in 2014 the world activity in the market of merges and absorption decreased against previous year: operations became 8% less, their total cost decreased by 4%.

Only in 2015 active increasing merges and absorption in world economy, expansion of investment investments in various industries begins. By estimates of the separate agencies the volume of transactions in 2015 was 35 trillion US dollars. The next year was characterized by higher growth rates of processes of merges and absorption.

The expansionist policy of multinational corporation through merges and absorption at the present stage becomes more and more active. Uniting and absorbing each other, the companies concentrate in the hands the economic power having an impact on development of the separate markets and on economic policy of the certain states. Growth of level of cross-border cooperation in 2016 demonstrates obvious revival of the world market of merges and absorption. As it is noted in the report of the Deloitte company, multinational corporations as main "players revised structure of the investment portfolios and began to look for favorable opportunities for growth". [26] It should be noted that the interest of the companies in transactions of merge and absorption was increased also by improvement of a financial condition of the companies, liquidity of the debt market and favorable interest rates. [27] Revival of processes of merge and absorption can be connected with improvement of an economic situation in the developed countries, reorientation of the large companies to expansion policy and also enhanced action of the companies of developing countries.

If to analyze in a branch section, then agreements in health sector which number increased by 50% in comparison with last year were the most active industry on carrying out transactions of merges and absorption in 2016. Among the major factors which increased interest in this area there was a development of new medicines and modern ways of diagnosis of various diseases. According to the Ernst & Young company, the total value of transactions in 2015 in this area was 340 bln. dollars of the USA. At the same time the appeal and the oil and gas sphere where

the number of transactions doubled increased. It is also worth noting what growth of transactions was observed also in the field of the equipment and the telecommunication sector. The cost of transactions grew by 69% and 13% respectively here. The largest bargains concluded in 2016⁵ are presented in tab. 3. Some researches on branch processes of merge and deepening also note market growth and predict its further growth. [28]

Table 15 - The largest mergers and acquisition deals in 2015

Company	Voalue of agreements, bln. dollars	Sphere
Pfizer Inc. and Allergan Plc	160	Pharmaceutics
AnheuserBusch InBev and SABMiller Plc	7	Brewery
Royal Dutch Shell Plc and BG Group Plc	81,5	Oil and gas
Charter Communications Inc. and Time Warner Cable	79,6	Services
Dow Chemical and DuPont	68,6	Chemical

The territorial analysis of activity of multinational corporation presents interest at the market of merges and absorption. More these strategy use the companies from North America and corporation from the European countries. The countries of this region are leaders both among "sellers" of the companies, and among "buyers" of foreign assets. The greatest number of transactions of merge and absorption is tendentious it is carried out by the companies of the USA. So, a half of total amount of transactions – 25 trillion US dollars fell to the share of the American companies in 2015.

The largest transactions of merge/absorption in the USA last year became purchase of the cable companies Time Warner Cable and Bright House by the Charter company for 90 bln. dollars of the USA and large-scale merge in the hi-tech sector where the vendor of Avago semiconductors bought Broadcom for 37 bln. dollars of the USA. [29]

On the second place in terms of the scope of the conclusions of agreements of merge/absorption are the companies of the European countries where the share of such transactions makes 27% of the total amount of merge/merger of the companies. Among large deals it is necessary to select acquisition of Great Britain BG Group for 74 bln. dollars of the USA of the European Royal Dutch Shell. However still weak economy of the Eurozone leads to the fact that a number of the companies give preference small and less risky merge. According to the experts, leaders in the market of merges and absorption is and there will be in the long term Germany and Great Britain. Revival in the European market of merges and absorption

will happen thanks to involvement of the large private and state companies which aim at expansion, and foreign investors who have available funds and healthy assets wish to buy. It is necessary to carry an opportunity to leave by Great Britain the European Union to factors which will influence decrease of the activity in the European market of merges and absorption.

The important contribution to development of the market of merges and absorption is done by the companies from developing. The Pacific Rim where the cost share of such transactions steadily grows is especially allocated and makes 19% of their total amount. In this region the most widespread are merges and absorption in China, South Korea, Australia, Japan. the greatest activity on carrying out such transactions is shown by the Chinese companies. Now China takes the second place in the world by the number of transactions and their cost. According to the experts, in 2015 made the number of transactions of merges and absorption to participation of the Chinese companies 5270, and their cost reached 477,200,000,000. US dollar. Europe, the USA and Australia become the most attractive market for the Chinese investors. 2/3 all transactions fall to their share. The offer the Chinese chemical corporation on acquisition of the Swiss producer of herbicides for the sum more than 43 bln. dollars of the USA. [32] to increase in number of transactions of merge and absorption is the largest absorption the appeal of the Chinese market and benefit which are provided by China to foreign investors promote. Usually, such increase happens generally thanks to growth of investments.

Use the smallest popularity of strategy of merges and absorption in the multinational corporations working in the countries of Africa and Latin America. Their share in the total amount of merges and absorption makes 6%.

In spite of the fact that multinational corporations of developing countries, constantly improve the strategy that allows them to compete on equal terms to world leaders, the greatest sales profits on merge and absorption have the companies of the developed countries. Now involvement of the companies of developing countries, to processes of merge and absorption is an important source of foreign investments, promotes both to stability, and recovery of economic activity of the separate companies, strengthening of economic growth of national economy in general.

The companies from the countries developing in cross-border transactions usually do not look for traditional advantages: synergies, and buy the western companies with the purpose to receive additional competences of application of such assets as technologies, new business models, innovative skills allowing them to become leaders on separate segments of the global market. [33] Mainly merges and absorption take place in those areas where the leading positions belong to the companies of the developed countries. Usually, it is information technology industry on telecom industry. [34]

It is quite clear that for multinational corporations the most attractive are open, quickly growing markets. As, according to forecasts of the World Bank, rates of gain of GDP in developing countries, will be about twice higher than the rates of the developed countries, the greatest distribution processes of merge and absorption in the future can receive the countries of this group. [28] Now the companies of the developed countries though give preference to the same developed countries, but the tendency to growth of transactions of merge/absorption in the markets of developing countries, the Pacific Rim and Latin America takes place in recent years. The multinational corporations using merges and absorption as strategy for an entry into the markets of developing countries consider not only itself growth of the markets, but also other factors, in particular economic and political stability in the region. To intensify considerable acquisitions of assets and diversification of the market, leading companies of the developed countries consider also possibilities of risk mitigation at the conclusion of the transaction of merge/absorption.

Thus, dynamics and structure of cross-border merges and absorption shows that the main leaders are the companies of the most developed countries. However recently the number of transactions of merges and absorption in developing countries gradually increases. This type of transactions becomes an important source of foreign investments and gives the chance to see the further growth of transnationalization of economy of these countries.

Allocation of the industry analysis demonstrates growth of number of transactions of merge and absorption in such sectors as pharmaceuticals and power. Also the activity in services sector, the chemical industries, the telecommunication sector is

observed. Branch features of merges and absorption define activity of multinational corporation, their strategic positioning in these areas.

However universal experience in the field shows that about 76% of transactions terminate in failure. Thus, the strategy of growth of the enterprise by integration is extremely effective, but only on condition of correctly carried out transaction on merge or absorption at all stages. Therefore, special attention should be paid to problems which can prevent successful carrying out the transaction. During the research the following main problems when carrying out absorption were allocated:

1. First of all is a wrong choice of a form of the transaction. For successful carrying out the transaction first of all it is necessary to choose a form which it will take. A wide choice of forms of carrying out the transaction at variety of factors, essential to it (legal, tax, accounting and so forth) gives a scope for the creative planning designed to satisfy often the opposite interests of buyers, sellers, investors and creditors. Each case is individual and it is necessary to consider all pluses and minuses.

2. Lack of strategy. Often, after long preparation of the transaction on merge or absorption and the maximum concentration of all management at this stage, after overcoming all barriers, it becomes clear that top management of the company does not know what to do later, there are neither ideas, nor resources for the subsequent integration. Especially it is characteristic of absorption in unfamiliar area for the purpose of diversification. Such absorption made under the influence of a momentary impulse and which are not considered strategically quite often come to an end with the subsequent sale of the acquired assets after unfortunate attempts of introduction to the new area. Thus after the rash decision the company not only incurs huge losses, but also often does not know how to get rid of unsuccessful acquisition.

3. Strengthening of fluctuations of employees one of the most burning issues which faces the management after carrying out the transaction. As a rule, it is characteristic of the absorbed companies. The uncertainty in preservation of the workplace forces most of employees (including exclusively valuable) to begin search of new work. One more reason in order that begin search of new work can be moral feeling of the loser or unwillingness to work under the leadership of

"strangers" that is especially characteristic of the leading personnel. During this fluctuation first of all the most skilled workers and managers of the top management, it is rather simple to them to find the favorable offer in labor market leave. Fluctuation sharply increases costs of the company in connection with increase in total amount of severance pays, costs for search of new skilled staff, training and adaptation of new people in the organization. The shortage of personnel has an adverse effect on the current business, so-called turnover of staff increases, the image of the enterprise worsens that in turn leads to loss of clients and makes an impression of unfortunate absorption;

4. Furthermore one of the most important problems is underestimation of potential expenses, first of all on integration, restructuring of departments, formation of new image of the company that by some estimates, can make to a third of the transaction price. Assessment of the total costs before acquisition often does not include a large number of points which demands serious *затрат*, for example: costs of recovery of the personnel lost during fluctuation, of actions for rapprochement of corporate cultures and the organization of exchange of a know-how, introduction of new methods of management and training of old employees;

5. Consciously non-objective assessment. The employees developing the plan of the transaction quite often are in a varying degree interested in its carrying out and make unreal, too optimistic assumptions of possible result by its drawing up. The keen desire of top managers can be the possible reason to carry out the transaction owing to dependence between the salary and the total cost of the company, desire of the power, you should not forget that "the arrogance hypothesis" quite often influences the choice. Rather seldom several action plans depending on approach of uncontrollable events are formed, external factors which the company cannot affect, a bright illustration is change in the exchange rate of national currency, a percent rate, decrease in the general solvency. Also in business plans it is quite often possible to meet unreal planned values of sales volumes right after the announcement of the transaction under cover of such arguments as "synergy".

6. Lack of the control. Success of any transaction can be achieved only at due control of all stages. It is traced by means of the cumulative indicators characterizing financial results of the united company that is obviously not enough for definition of the weakest spots and timely introduction of amendments. This problem is

closely connected with lack of the accurate plan of absorption, the wrong distribution of responsibility, delegation of certain powers, absence of the fixed purposes, insufficient qualification of supervision manpower and lack of constant control of extent of their achievement. On In practice the bulk of tasks is solved according to a measure of their emergence. Can be a sample, the situation formed at acquisition of the American mobile firm VoiceStream when the share of workers in Germany diligently combated the American antimonopoly committee, seeking to carry out one and all latest requirements, without understanding in any way that, first, there is a similar group in America, with similar tasks, and secondly, that the problem was solved only by method of lobbying by the top management of concern in the senate.

7. Slowness of decision-making. obligations according to the transaction have every chance to be transferred from one office to another without any shift. Existence of essential number of hierarchical levels between quick workers and the commission making the decision tightens the procedure of the transaction and has negative effect on the general result.

8. Cultural barriers. According to the report of Economist Intelligence Unit (research division of Economist Group), 61% of the international companies meet difficulties because of cultural and language barriers with entry into the new markets and development of the markets where they already work. As a result, this point should pay special attention as now, success of the company very much depends on human resources. Therefore at entry into the market it is necessary to study, traditions, customs, national holidays and features of mentality.

9. Inexperience of managers. Projects on absorption rather strongly differ from carrying out ordinary, a way even very difficult, transactions that demands certain qualities from management of the company. Rather large number of failures is observed in cases when managers, without having experience of carrying out absorption and relying only on own forces, take management in hand. The methods applied at management of the operating company can be not always effective, and sometimes are even pernicious.

The allocated problems which each company faces during merger of the enterprises show how difficult process of integration of the companies is and that achievement of positive effects of process of absorption is possible only by means

of the competent management capable to remove not only the causes of failures of integration, but also as it was spoken to choose, first of all, earlier the correct form which will accept the transaction.

3.2 Ways of improvement the financial performance during implementation of projects

After the announcement each enterprise face a curtain number of problems that should be solved. Hence, it is necessary to to use some instruments directed to achievement this purpose. At the time of integration of the enterprises there is a huge number of factors which demand changes. Thus, first of all further it is necessary to reveal ways of improvement of financial results proceeding from implementation of projects which will be carried out right after absorption.

Mechanisms of financial management will lead to the desirable effect of acquisition implementing on the specific project:

1. budgeting as one of the main mechanisms. It is necessary to distribute and use correctly the budget and also to keep account for understanding of the current situation in the enterprise, timely introduction of amendments and further planning of actions. Effective realization of the budget, is a basic element of achievement of goals;
2. management of costs of the project in order to reach reduction in product costs, ABC analysis and also policy in the field of depreciation will allow to increase profitability of the project in general and also to strengthen positions of the enterprise in the competitive market;
3. activity in the sphere of settlings with suppliers and buyers also play a significant role on financial result of the project in general. Increase in efficiency of the project in the field requires carrying out optimum policy in the field of management creditor and receivables, in the field of sales management;
4. implementation of modern ways of financing of the project is the key moment regarding increase in financial result. For each specific project it is necessary to

use financing sources with the minimum cost, in reasonable degree to apply the raised borrowed funds.

The JSC Rosneft company estimates synergy as a result of the transaction approximately at 5-10 billion dollars that will be reached within five years for the account implementation of the following projects:

- joint development of Suzunsky, Tagulsky and Russian fields with use of infrastructure of the Vankorsky oil and gas field and the optimized logistics (for example, oil from the Verkhnechonsky field can be delivered to China that will allow to save on transportation costs);
- joint development with CJSC Rospan Inter-neshnl in a gas segment of fields of Kynsko-Chaselsky group and the Harampursky oil-gas condensate field and also gas assets of LLC ITERA Oil Company;
- reducing costs for oil processing
- optimization of logistics of supply of oil products and swap operations;
- economy on the total and administrative costs;
- tax optimization through elimination of excess offshore structures;
- rationalization of an asset portfolio, including sale of non-core and less profitable assets

The median value reached by the considered companies of decrease in expenses was \$1.3 for barrel of the got oil equivalent (Barre of N aa). At production of joint Rosneft of 4.7 million Barre AD in day such decrease in expenses has to result in synergetic effect more than \$2.2 billion a year. To it the company can save plus due to optimization of capital expenditure. As a result Rosneft can quite achieve cost reduction by \$3 billion a year.

It should be noted that as JSC ROSNEFT Oil Company at implementation of the transaction on merger of the TNK-BP Limited enterprise pursues the aim to realize advantages by means of synergy, will render on success of this transaction more the strategic factors having an impact on realization of the integration, than factors of management of the specific project. Therefore, effective management of mechanisms of financial management will allow with a high share of probability to get profit on implementation of this project, but besides, it is necessary to concentrate attention on all most important aspects of preparation and integration of the enterprises. Successful implementation of one project does not solve all problems

which it can face the enterprises and which were revealed at the beginning of this chapter. For a successful completion of integration it is necessary to approach a question in a complex. It is a key factor for creation of "The new company" which will be able to become stronger player in the market, to overcome all difficulties, and, in particular, by means of implementation of projects correctly, and the most important successfully to carry out integration that in the long term will bear much more big fruits, than implementation of one project.

3.3 Ways of improvement the financial results of acquisitions

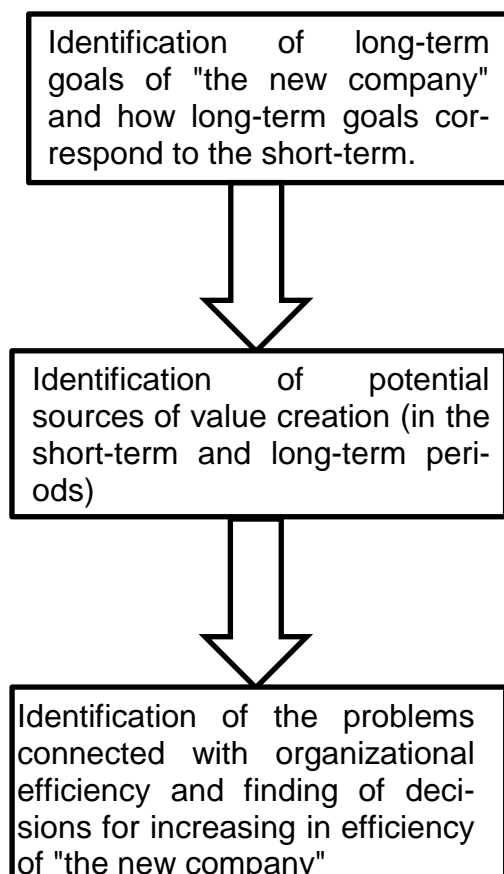
A huge number of factors affect financial result of the transaction and success of carrying out the integration. Conditionally these factors can be divided into two parts. To the first part refer preparation of the transaction and a small amount of time right after its carrying out, and to the second management of process of merge. So, according to the researches conducted by experts of McKinsey up to 70% of potentially successful transactions ruins poor quality of preparation and carrying out integration. Experts in this area came to a conclusion that success of the transaction in many respects depends on actions of the management in the first hundred days after its announcement. Unfortunately, often top management of the enterprise is so keen on the organization both from negotiation, and from the legal point of view and carrying out the transaction that does not even think of planning of the actions after it was announced the transaction. However, during this period from the management the maximum concentration is required, they should interact actively not only with the external environment, but also with all divisions of the enterprise: the transaction has to be issued properly, it is necessary to convince shareholders of correctness of the chosen strategy, to hold negotiations with regulators. More it, they for the first time should deal with staff of the absorbed company which staff, as a rule, with vigilance perceives the future changes. Thus, the crudity of further actions often conducts to a failure of integration of the companies.

During this period the major decisions which in many respects define further the direction of development of the company are made. For example choice of a line of products, cancellation of some contracts, sale of more illiquid assets. It is natu-

ral that fast formation of new, stronger company, than before absorption has to become an ultimate goal of merge.

As initial the scheme on integration of the new company the following scheme is offered.

Picture 1 - Integration of the "new company"



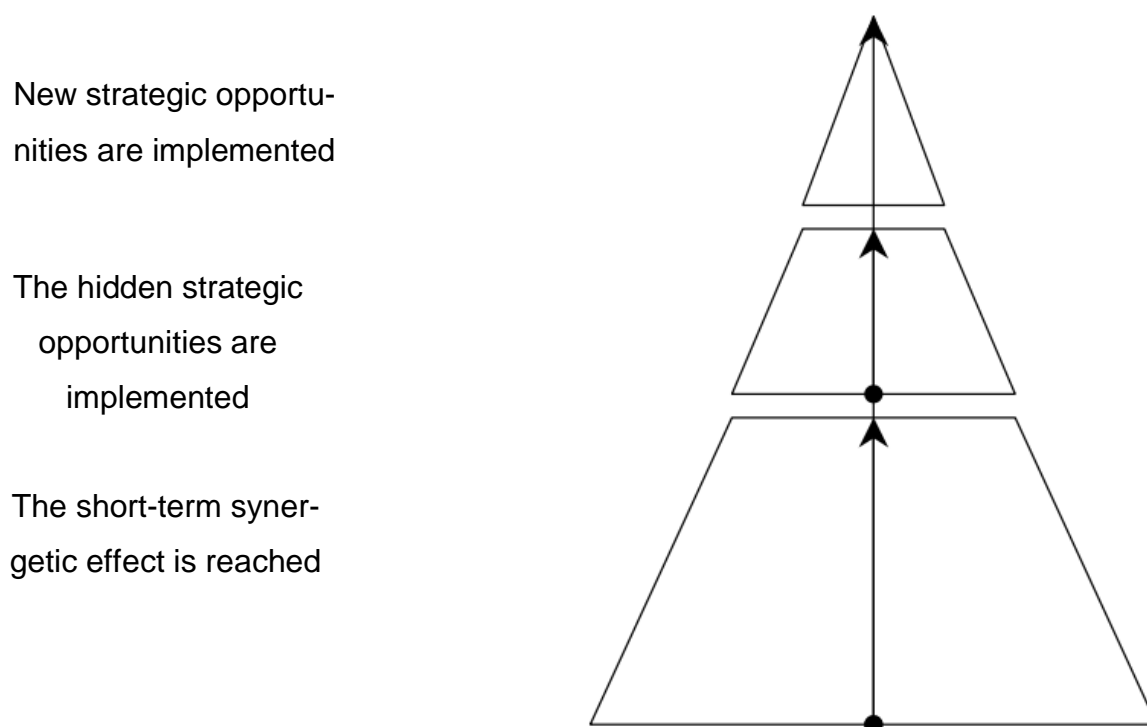
This scheme is the approximate plan of how it is necessary to build integration processes as much as possible to consider features of the united companies.

Further it is necessary to sort in more detail each stage of the scheme given above. At the first stage top management of the company sets long-term goals of "The new company", correlates stages for their achievement to short-term objectives and the current activity, accurately thinks over ways of their achievement and criteria of estimation and control. Extremely important at this stage accurately to decide on short-term and long-term goals of "The new company", to build a realistic plan of actions, it will allow to instill confidence in employees, to rally team, to develop the plan of integration considering priorities now of "The new company".

At this stage the team needs to answer on integration on several main questions: as it is possible to use strong and weaknesses of both companies for achievement of the maximum effect of synergy; the general and distinctions of the companies; what should train and how to organize training of new employees; what management style to choose. Answers to these important questions define competences for development and the purpose, can significantly influence both integration process, and further business.

At a stage when there is a need of identification of potential sources of value creation, the three-level pyramid of value creation is formed.

Picture 2 - Three-level pyramid of value creation



At the first level the short-term synergetic effect is reached. Generally, it occurs due to elimination of the duplicating functions and processes, growth in incomes due to merger of companies is stimulated. However, on it it is impossible to stop. At the second level the hidden opportunities of "The new company" which appear only as a result of absorption as now two companies in one are joint are implemented and it is allowed to use most effectively assets, brands, the human capital. Often, carrying out merges happens for, that the company reached and new level,

as happens after association. At the third level new strategic opportunities which appear as a result of combination of competitive advantages of two companies are implemented. It can be expressed in entry into the new markets, development of new technologies, products, know-how in management, by means of interaction, development and exchange of experience.

At the third stage of the scheme there is a need for taking measures to increase in organizational efficiency. The researches MacKinsey show that the impossibility to overcome contradictions of corporate cultures of the uniting companies becomes the main reason for 80% of unsuccessful merges. Irrespective of a transaction outcome, cultural problems in anyway need to be solved. In other words, after execution of the transaction, the solution of cultural and organizational problems gains the defining value for any integration — both successful, and unsuccessful, the main role in any company is played by human resources. The innovative economy with its creative character, represents absolutely new type of social production where information acts as a major factor of production, pushing traditional factors the background. At the same time the person acts as one of the major data carriers and its converter. Increase in a role of a human resource in creative economy becomes natural result of formation of new type of social production.

During the solution of organizational problems management needs to pay special attention:

1. to formation of the leading team: how to rally the new management around the tasks set by the CEO and the board of directors;
2. to structure of the organization: how to create structure which will correspond to the strategy of "The new company";
3. to the culture of high efficiency: how to develop culture which would promote increase in efficiency of "The new company" and would help to realize its long-term goals;
4. to management of professional employees: how to find in both companies the most talented employees and to motivate them for participation in creation of "The new company".

Any of these aspects noticeably influences further actions of the company and approach of the company to management. For example, if the enterprises worked in

services sector, in this case at absorption the maximum focus has to be concentrated on employees whereas at absorption for the sake of association of tangible assets, involvement of employees is not as important as making decision on rational use of assets.

Development of a consensus on the main questions of business at the formed team of heads and experts has very great influence on final success of the transaction on merger of the company. For achievement of it it is necessary to organize team work for more exact understanding by employees of the colleagues and formation of a uniform system of values and tasks, for involvement of all in creation of "The new company".

Formation of the new corporate culture focusing employees on increase in labor productivity also is one of conditions of successful integration. The corporate culture is one of the most important components of successful functioning of the organization. It has an impact on the relation of employees to the organization, results of their activity.

The corporate culture is considered as the powerful strategic instrument of human resource management allowing to focus all divisions of the organization and individuals on common goals. The skillful management of corporate culture allows the management of the organization to use the human capacity of firm more effectively.

Therefore forming of corporate culture can be divided into 2 stages: 1. in the short-term period to reveal the "cultural problems" related to employees, communication, structural transformations, their values, features of thinking; 2. in the long-term period to create corporate culture at which employees would try to carry out effectively objectives and to work with the maximum return for "The new company".

It is competent to solve these problems especially important if the companies from the different countries or the industries unite and if the cost of the transaction is created by people, but not assets. At the same time, cultural obstacles are surmountable if to apply below-mentioned methods:

- it is necessary to create "the cultural database", having studied differences in the corporate cultures of the companies. During the researches it is possible to use different ways of collection of information: for example interviewing only heads or

focus groups, there are also other options. To each situation the approach is required, but first of all, as a rule, it needs to be connected with a field of activity of the company.

- it is necessary to create the united leading team committed to tasks and values of "The new company". Members of this team have to become an example for other employees;

- it is necessary to organize all conditions for comfortable acquaintance and the subsequent coexistence of all staff of both enterprises (the organization of an informal meeting, the centralized place for a lunch break, the general workplace). Moreover, when business concerns corporate culture it is necessary to collect feedback at personnel.

Also costs it is necessary to tell that formation of corporate culture can take place uncontrolledly, anyway any culture will be created, however it will be much more difficult to change it and it will introduce only negative aspects in activity of the company.

Besides it is necessary to pay attention to one more major moment - deduction of the most talented staff of both companies.

At any global change people feel uncertainly, worry about the future, at this moment they are most vulnerable and competitors quite often seize the moment, enticing to themselves the most valuable shots. At this moment employees feel is vulnerable, there is a big share of uncertainty, it is unclear to wait for what from the new management when all informal contacts with the past are lost, it turns out that further development and the future in this company on a question. It is predictable that many employees have a feeling as if they were betrayed, and immediate search of new work begins. Statistically, up to 75% of top managers leave the absorbed organization in the first three years. As In most cases goings from the company are subdivided into two waves: some leave at once, others wait while the situation is stabilized, estimate the situation and already then make the decision.

The problem of deduction of talented employees is solved by means of use of several steps:

1. As soon as possible, at a stage of carrying out the transaction, it is necessary to reveal the most talented employees. It is important to understand that the talented

employee — it is not obligatory the top manager. Often — especially in such areas as information technologies, dealer operations, communications with investors — employees on whom success of the company depends work not at the highest level;

2. To implement the program of preservation of employees. Such programs usually mean payment of a reward to key employees who remain in the company during merge.

If it appears insufficiently, then it is possible to enter practice of individual mentoring into the companies or to oblige heads to hold key employees from the divisions. When IBM absorbed Lotus, the CEO of IBM Lu Gerstner personally talked to developers of new products — one of its major assets — and convinced them to remain;

3. To quickly carry out appointments. BP — Amoco carried out several hundreds of key appointments within several weeks after the announcement of merge. In many respects exactly thanks to such speed it was succeeded to hold key employees because most of all at merges of people weighs uncertainty. The atmosphere of uncertainty is dangerous also that it favors to games "for the power" between the leading teams from the uniting companies. As a result of the organization lose efficiency, the motivation decreases, employees are distracted by another.

Thus, we considered the main problems which the enterprises face during transactions on absorption. The main ways of increase in efficiency of transactions on merger of the companies were revealed, the moments to which it is necessary to draw special attention during integration as in the strategic plan (work with personnel, especially with talented key employees, formation of the corporate culture of "The new enterprise" answering to its long-term goals, identification of potential sources of value creation), and the plan of implementation of the specific project are noted (budgeting, management of costs for the project, activity in the sphere of settlements with suppliers and buyers and financing of the project). Proceeding from the researches McKinsey, the period in 100 days during which the foundation of successfully carried out integration of the enterprise are laid was defined.

CONCLUSION

According to tasks of work, theoretical aspects of process of merges and acquisition were explored, its types and classifications. It was revealed that merges and acquisition are an obligatory part of expansion of the company on the new market. Successfully chosen object and correctly carried out transaction, allow to achieve qualitatively new results, to quickly develop, maximize efficiency of the enterprise and profit. The main strategy of merges and ways of the analysis of cost efficiency were analysed.

During the analysis of efficiency of acquisition of the enterprise on the example of JSC Rosneft Oil Company and TNK-BP Limited the assessment of investment attractiveness of the parties of the transaction, estimation of cost of the company purpose and company buyer, estimation of cost of the united company together with synergy, assessment of efficiency of activity of the united company, determination of financial effectiveness of implementation of the transaction was carried out, the analysis of activity of the JSC Rosneft Oil Company after completion of process of acquisition was also made.

Internal cost of equity of PJSC Rosneft Oil Company (31.04.2012) is 68,421 million dollars, and the cost of JSC TNK-BP Holding for the same date is 49,434 million dollars, the cost of the united company more than total cost company buyer and company purpose before merge (118.68 million dollars; $68,421 + 49,434 = 117,855$ million dollars) that demonstrates existence of synergetic effect (820 million dollars) and prevalence of positive factors of formation of synergetic effect which are generated by JSC Rosneft and JSC TNK-BP Holding. However, unlike the expected results, the positive financial effectiveness of the carried-out transaction right after absorption was absent.

The international experience in this sphere was analysed and the main motives were marked out:

- obtaining synergetic effect;
- diversification of activity of the company;
- motives of monopolization;
- tax motives;

- acquisition of the underestimated asset;
- use of the research and development resources.

Entrance of the analysis it was established that the main leaders are the companies of the most developed countries. However recently the number of transactions of merges and absorption in developing countries gradually increases. This type of transactions becomes an important source of foreign investments and gives the chance to see the further growth of transnationalization of economy of these countries.

Allocation of the industry analysis demonstrates growth of number of transactions of merge and absorption in such sectors as pharmaceuticals and power. Also the activity in services sector, the chemical industries, the telecommunication sector is observed. Branch features of merges and absorption define activity of multinational corporation, their strategic positioning in these areas.

Besides, structuring transactions on merge and absorption was made and types which this operation can accept are classified. By consideration increase in efficiency of transactions on merger of the enterprises by the author the main main problems when carrying out transactions were established and ways of improvement of financial results at project management which are a special case of realization of the big company on integration are offered. It was established that achievement of desirable effect mechanisms of financial management will allow:

1. budgeting;
2. management of costs of the project in order to reach reduction in product costs
3. optimization of activity in the sphere of settlements with suppliers and buyers;
4. application of modern ways of financing of the project.

In general there are some instruments of financial management that are essential in order to achieve increase in efficiency of integration:

1. The management of the company needs to make in more detail the plan of the forthcoming transaction, she will accept to think what form, to work all legal and financial aspects, involving at the same time the most talented employees.

2. It to be necessary to spend the transaction in the shortest time and special time to give to the first 100 days after its announcement. This time when the most important decisions are made and most the companies fails during this period.

3. Heads and top managers need to develop strategy and long-term goals of "The new company", respectively taking into account a ratio of these purposes with short-term. Moreover, it is compulsory to reveal potential sources of value creation (using not only synergetic effect, but also strategic opportunities of the joint enterprise), to solve organizational problems (management of employees, the culture of "high efficiency").

4. To pay special attention to formation of corporate culture, in the conditions of the increasing value of human resources for the enterprise. Required stages:

- creation of "cultural database"
- formation of the united leading team like an example
- organization of conditions for comfortable work and coexistence of all employees
- deduction of talents.

Thus, the efficiency of carrying out merge and acquisition depends on a set of factors which must be considered and well-controlled during integration. Work on achievement of economic benefits which will be received by the company after merge or acquisition differs from high concentration of team on integration, aiming at result and demands great efforts from heads and top managers at all stages. Only in this case the company will be able to lead the transaction with the advantage, maximum for itself, to increase efficiency of the enterprise and profit, opening new ways of development and the market, to gain new competitive advantages and also to strengthen the positions.

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