

Sistema Seeks Diversity in Agriculture

By [The Moscow Times](#)

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Sistema is one of Russia's largest conglomerates, with sales of \$33 billion last year. **Maxim Stulov**

Sistema, one of the country's largest conglomerates with assets ranging from oil to telecoms, is looking at a range of possible deals as it seeks to diversify into new business lines such as agriculture and infrastructure.

"Opportunities in our M&A pipeline range from transportation to logistics to infrastructure and forestry, mining and further agriculture assets, some of which we plan to announce in the near term," chief executive Mikhail Shamolin said.

Shamolin also told a conference call with analysts last month that Sistema, which had sales of \$33 billion last year, was considering taking part in the privatization of Russian state-owned United Grain Company, or UGC.

"Agriculture in Russia has strong investment potential. Russia has the lowest land prices compared to European, North and South American benchmarks," he said.

Internal rates of return in that sector "can exceed 20 percent, and we are considering further cluster acquisitions in 2012," Shamolin added.

UGC is issuing additional shares to sell a stake of 50 percent minus one share in the company, allowing the government to retain majority control.

Several parties have expressed an interest, including U.S. firm Bunge, Louis Dreyfus Commodities and Russian investment group Summa.

Sistema recently set up an agricultural joint venture with members of the Louis Dreyfus family — which owns one of the world's four dominant agribusiness companies — with the aim to expand in the grains sector.

It is also midway through other deals that could help grow the company, which owns media and technology assets and a controlling stake in oil producer Bashneft.

Sistema's health-care operation Medsi is merging with the Moscow government's health-care assets, and the group is also restructuring its electricity business to focus on power grid operations.

The company, which counts Russia's biggest mobile-phone group MTS as part of its empire, still trades at a discount to its sum-of-the-parts valuation.

Shamolin said he would propose a buyback of about \$300 million worth of shares at the group's board meeting in May. Sistema will then cancel the shares, he said.

Sistema slumped to a net loss in the fourth quarter of last year due to a nearly \$700 million write-off related to a February decision by India's Supreme Court to cancel 122 telecoms licenses held by eight operators, including Sistema, over alleged irregularities in the way they were awarded in 2008.

The net loss was \$530.2 million compared with a profit of \$447.3 million in the year-earlier period. Net profit excluding one-off items was \$261.4 million.

India's telecoms regulator said last month that the price of a 2G spectrum in a reissue of licenses could be hiked tenfold, drawing howls of protest from operators.

Based on the regulator's recommendation, which is not binding on the government, Sistema would have to pay about \$6 billion to renew its rights to the licenses and get rights to additional spectra, Shamolin said.

"This price is absolutely unacceptable. ... So far it is only a recommendation, and we hope for a more economically reasonable approach," he told reporters in Moscow.

The company initially paid \$460 million for the spectrum, and Shamolin said a fair price could not be "two or three times more than what we had paid."

"I can definitely say we are not married to this asset whatever happens, this is not our position," Shamolin added. He, however, stopped short of saying Sistema could exit the market.

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