



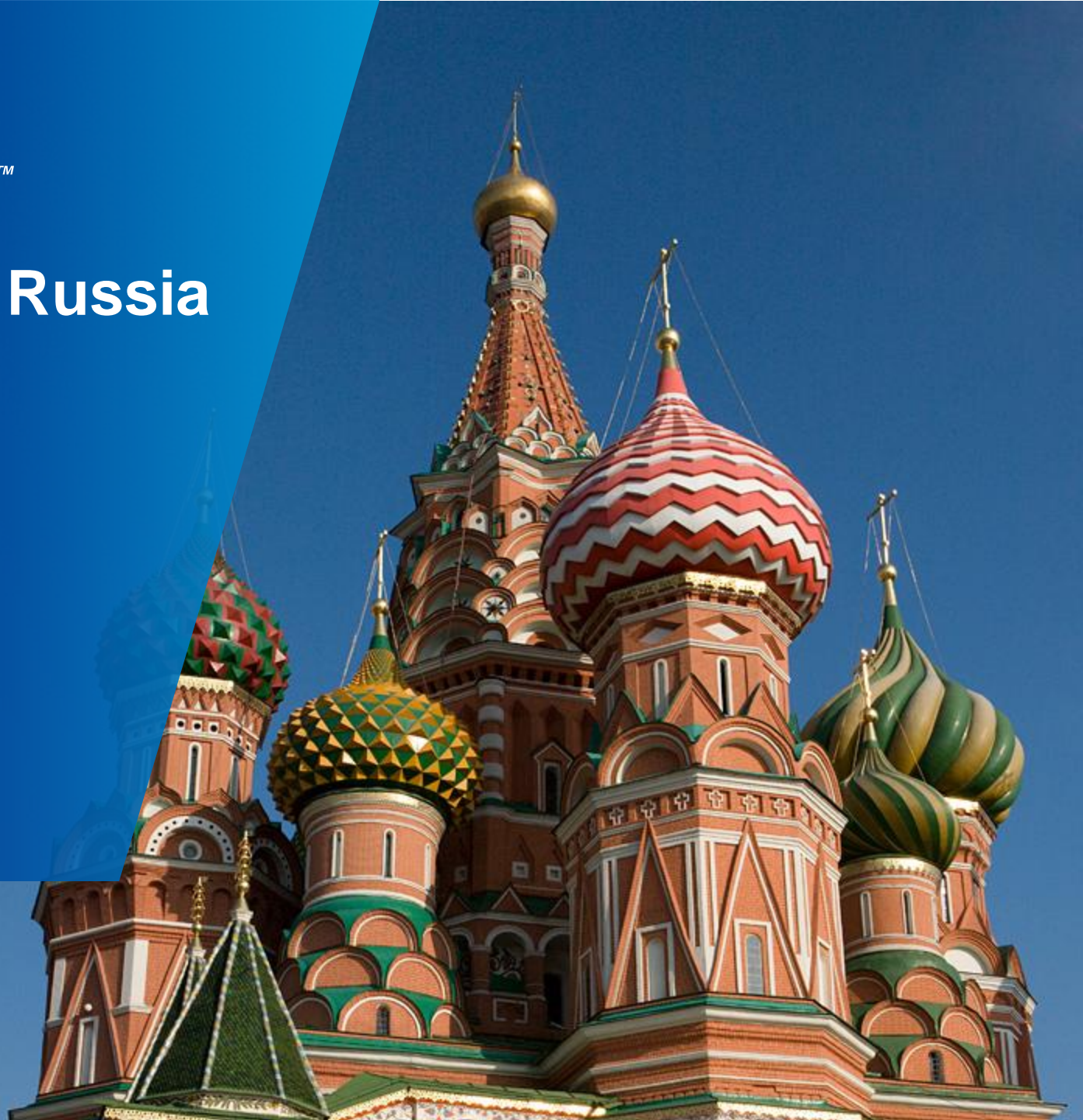
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Investing in Russia

13 December 2011

Marc van der Plas

Mark Barnes



With You Today

- **Mark Barnes**, Partner-in-charge of KPMG LLP's High Growth Markets
- **Marc van der Plas**, CIS Head of Markets

Russia: Dealing with Perception

PERCEPTION

REALITY





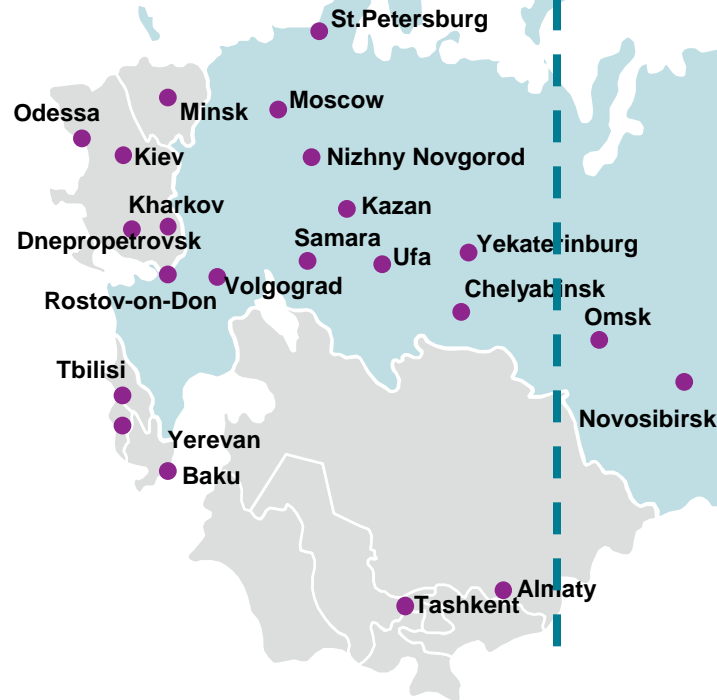
Macroeconomics and investment climate

Russia: Territory and Population

Facts

2010

| | |
|--------------------------------|-----------|
| Area (km ²) | 17 mln |
| Density (pop/km ²) | 8.4 |
| GDP (USD) | 1490 bln |
| GDP growth (real) | 4% |
| Inflation | 8.8% |
| Currency | Ruble |
| Population : | |
| <i>Russia</i> | 142.9 mln |
| <i>Moscow</i> | 11.5 mln |
| <i>Top 10 cities</i> | 26 mln |
| <i>Population growth</i> | -0.06% |



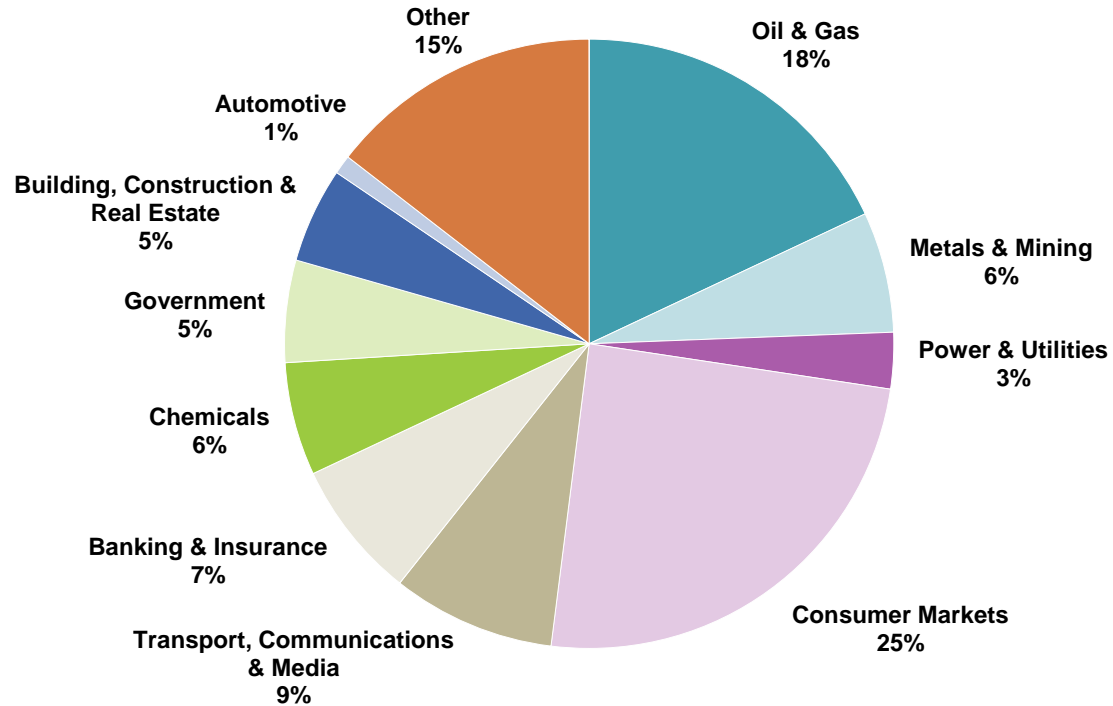
- Russia: 1st largest country in the world (1/8th of territories of all countries)
- 7 Federal districts and 83 regions
- Population: 9th largest in the world
- 73 % of population live in urban areas
- Russia has 12 cities with >1m people

| | European part (incl. Urals) | Asian part | Country (all) |
|-------------------------------------|-----------------------------|------------|--------------------------|
| Territory | 34% | 66% | 17.1 mln km ² |
| Population | 82% | 18% | 142.9 mln |
| Density (pop/km²) | 20.2 | 2.3 | 8.4* |

(*) Netherlands – 388; Belgium – 337; UK – 245; Germany – 230; Switzerland – 176; Spain – 80

Russia: Economy overview

Sector's share in Russia's GDP (2009)



Source: KPMG analysis

Russia: Leading position by energy & natural resources

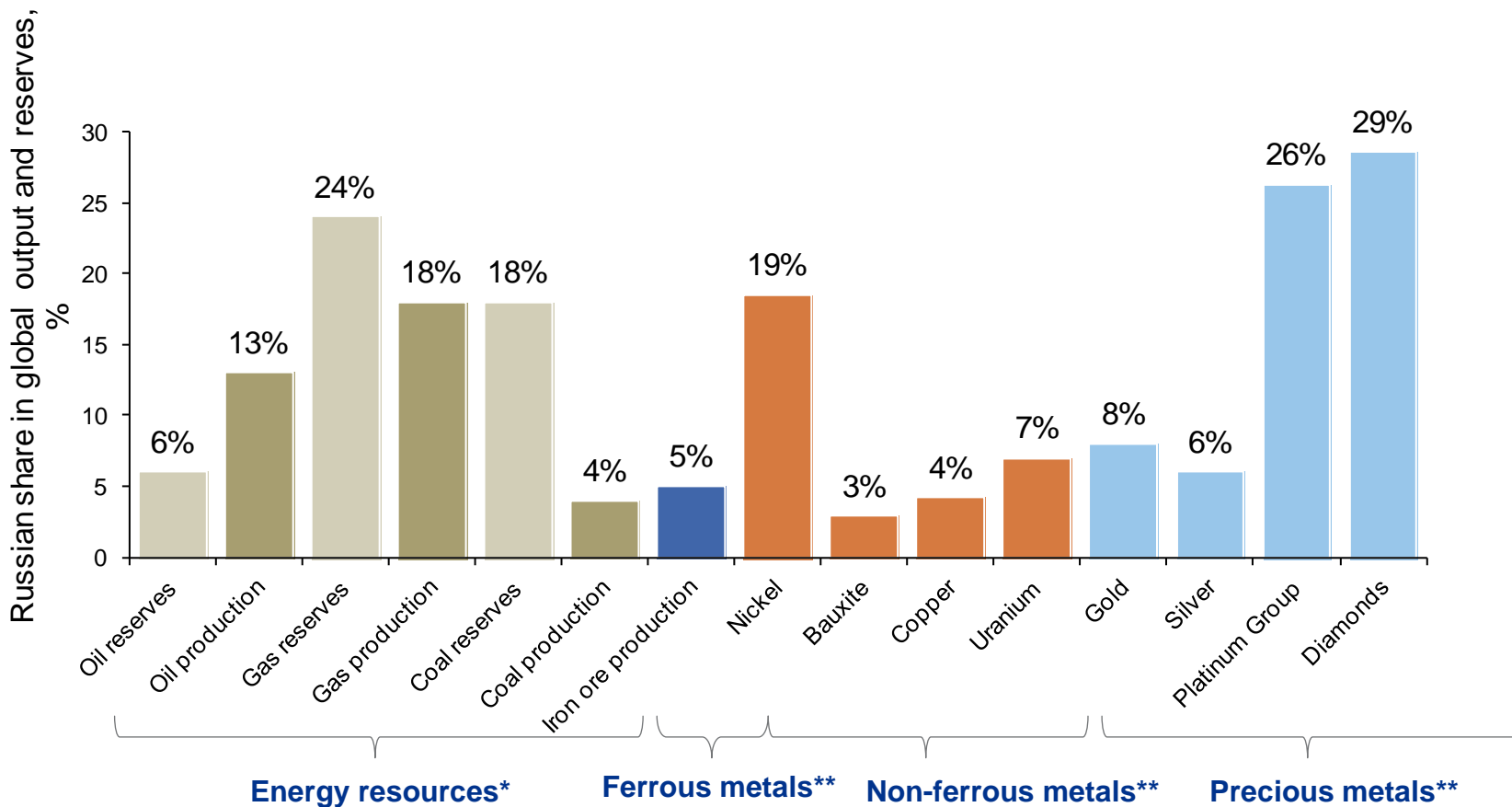
Oil production: #1
Oil export: #2

Gas production: #2
Gas export: #1

Nickel production: #1
Nickel export: #1

Uranium production: #5
Uranium reserves: #3

Diamond reserves: #1
Diamond export: #1

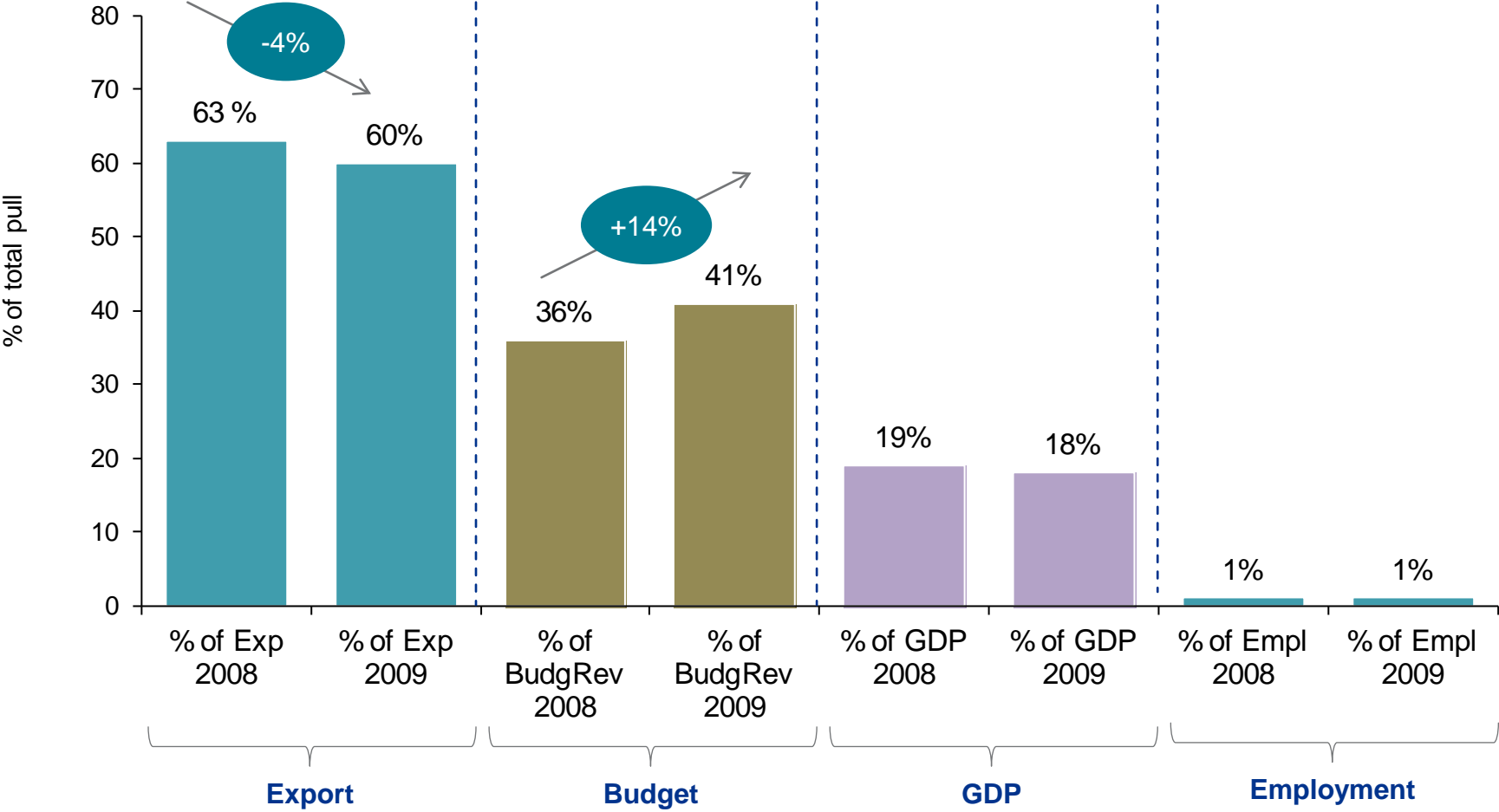


(*) – data for 2010. Source: BP Statistical Review of World Energy (June 2011)

(**) – data for 2009. Source: World mineral production by British Geological Survey

Other sources: CIA

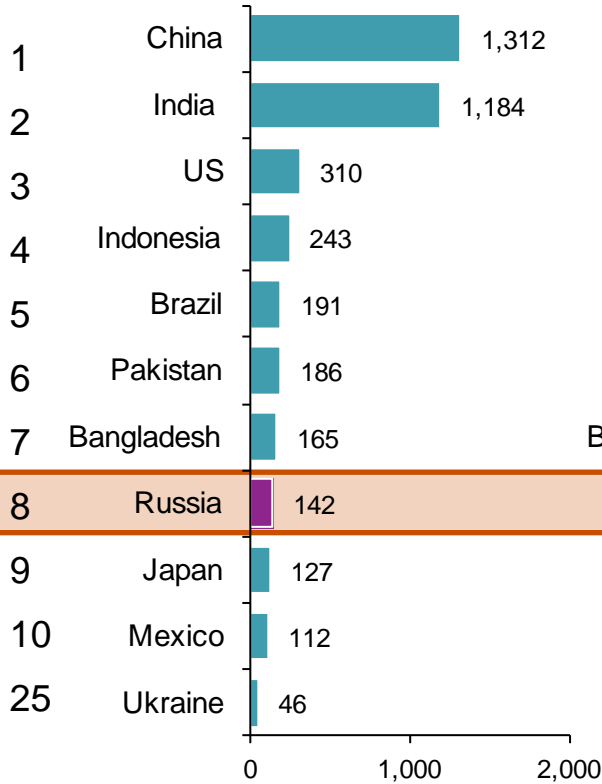
Oil & Gas sector accounts for 60% of exports...



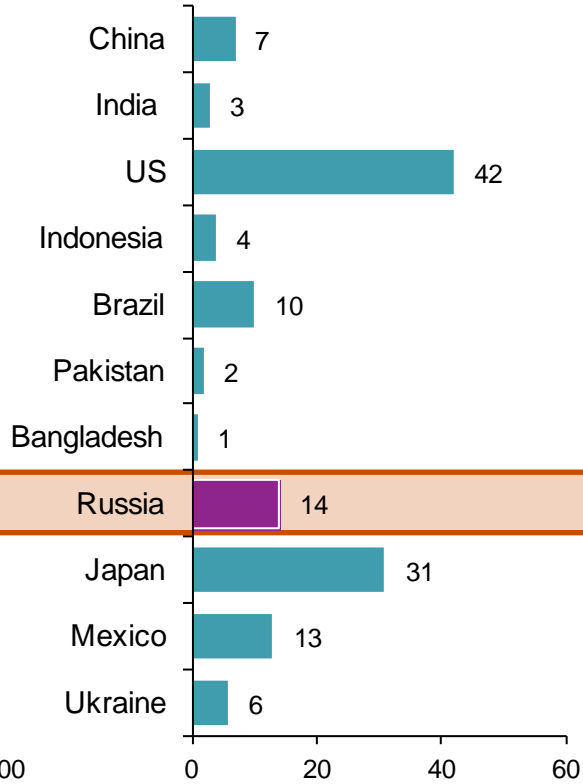
Source: Russian Statistical Agency, BCG analysis

Russia: The richest large emerging economy

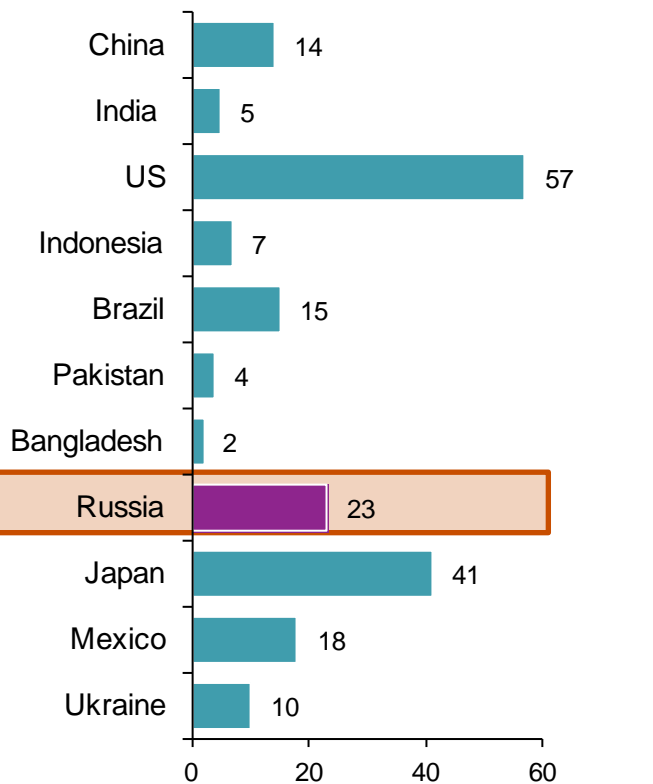
Population



GDP per capita, 2010



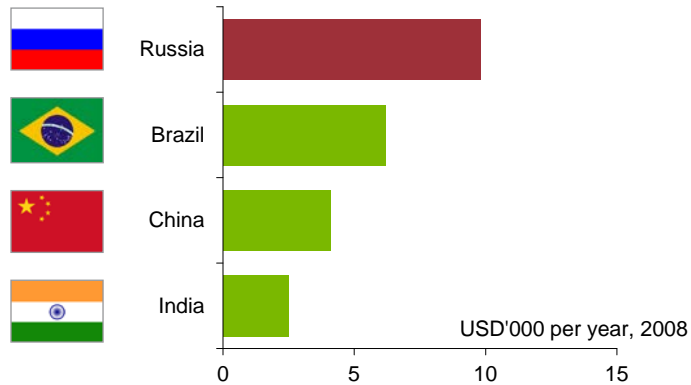
GDP per capita, 2016 Estimate



Source: EIU, IMF

Why Russia?

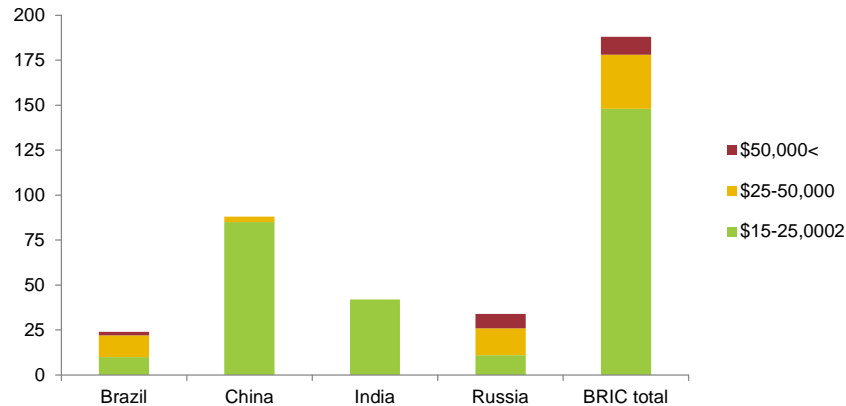
Disposable household income



Strong track record of corporate profits

| Profit attractiveness (10 excellent, 0 terrible) | |
|---|------|
| Russia | 9-10 |
| Turkey | 5-6 |
| India | 4-5 |
| Central Europe | 3-5 |
| China | 2-4 |

Middle class composition in BRIC



Expected sales growth

| Expected sales growth | |
|-----------------------|-----|
| 1 – 10% | 26% |
| 10 – 15% | 26% |
| >15% | 46% |

Source: DT Global Consulting, BCG analysis, CEEMEA Business Group, EIU

Challenges

■ DECLINING POPULATION, DECLINING
WORKFORCE

■ AGING POPULATION

■ LOW PRODUCTIVITY

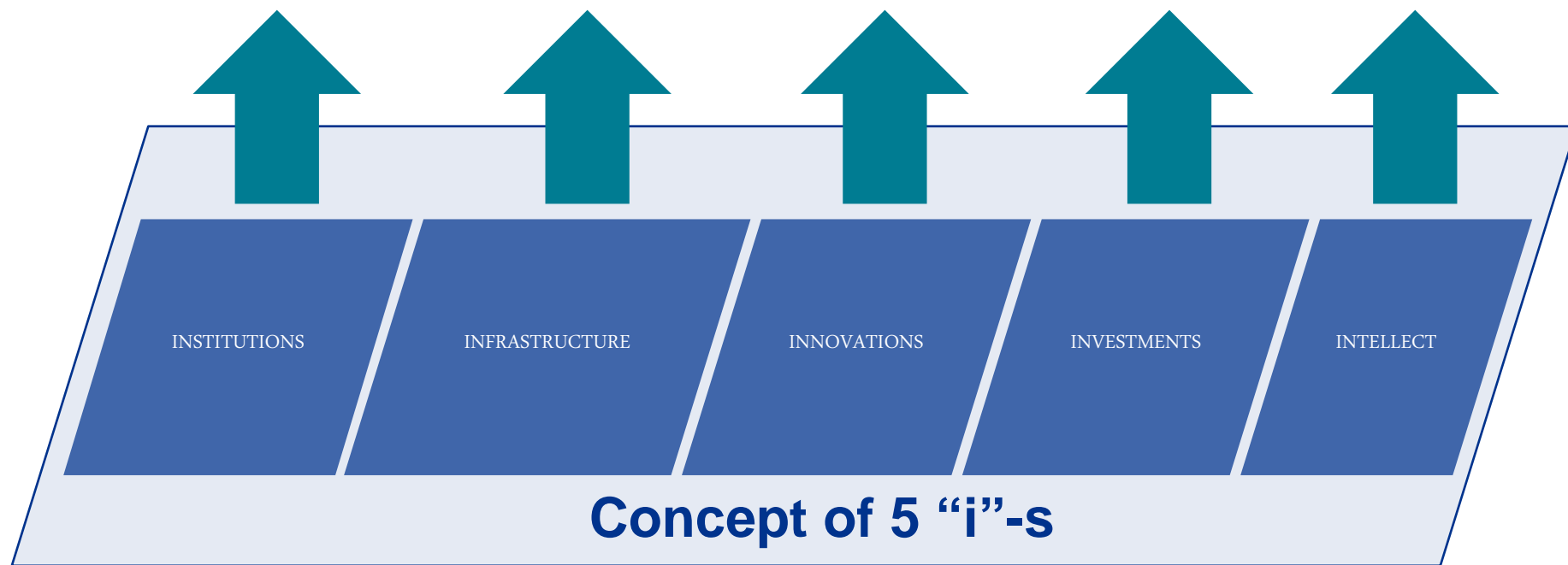
■ EXHAUSTED INFRASTRUCTURE

■ PERCEPTION

Call for modernization of Russia:

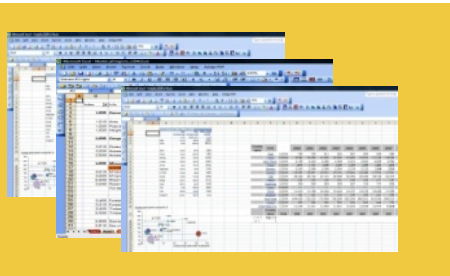
“Instead of primitive extraction of natural resources, we will create a smart economy that produces unique knowledge, new things and technologies useful for people”

*President Dmitry Medvedev,
address to the Parliament, November 2009*

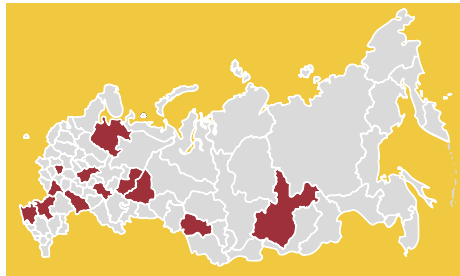


Study on Regional investment climate in cooperation with RSPF

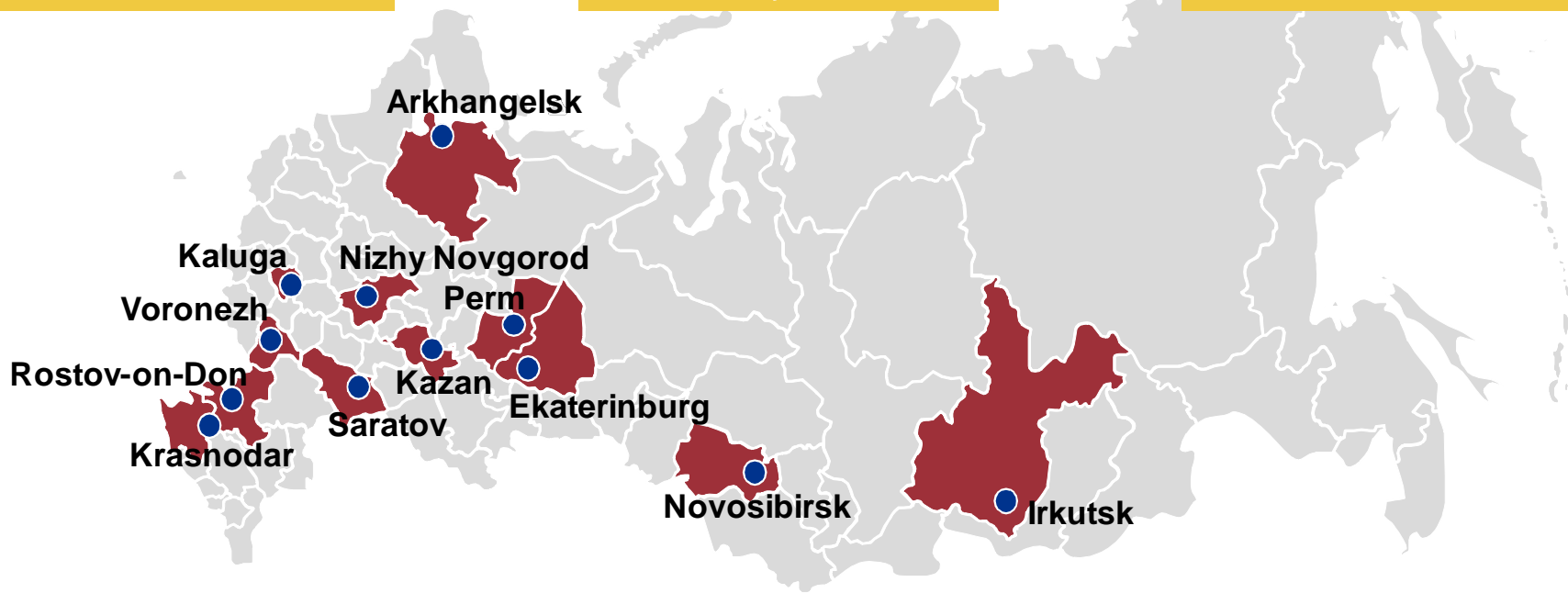
Desk research



Selected 12 regions



KPMG interview programme



Hard Factors vs. Soft Factors

Hard factors

- **Geographical location**
- **Natural resources**
- **Workforce**
- **R&D base**
- **Size of the accessible B2C market**
- **Size of the accessible B2B market**
- **Infrastructure**

Soft factors

- **Industrial and technological parks, free economic zones**
- **Centres of cluster development**
- **Marketing**
- **Legal environment**
- **Financial and tax incentives**
- **Investment process. One stop shop**
- **Business associations**

Expectation gaps

Gap areas

Investors

Regions

| | | |
|--------------------------------|--------------------------------|---|
| Common objectives | Long term view | Short term conditions |
| Clarity and Consistency | Upfront clarity | “Consistent surprises” |
| Involvement | Senior end-to-end | Institutional approach |
| Financial and Tax | Material and obtainable | Over-engineered and difficult to get |



Doing business in Russia

Sector attractiveness for foreign investment

Today's hot sectors

■ Oil and gas

- Strategic sector with clear rules
- Joint projects: Russia needs know-how and capital
- Sale of non-core assets
- Tax is key risk

■ Consumer markets

- Easy access, no government interference
- Local consolidation dominates retail
- Food and beverages provide clear opportunity
- Banks expected to divest assets obtained via restructurings

■ Automotive

- Localization requirements and high trade barriers open opportunities for suppliers

Sectors of tomorrow

■ Financial Services

- Russia is still “underbanked”, but
- Risks in loan portfolios not fully transparent yet
- Local consolidation of banking sector needed (still close to 1,000 banks)

■ Healthcare

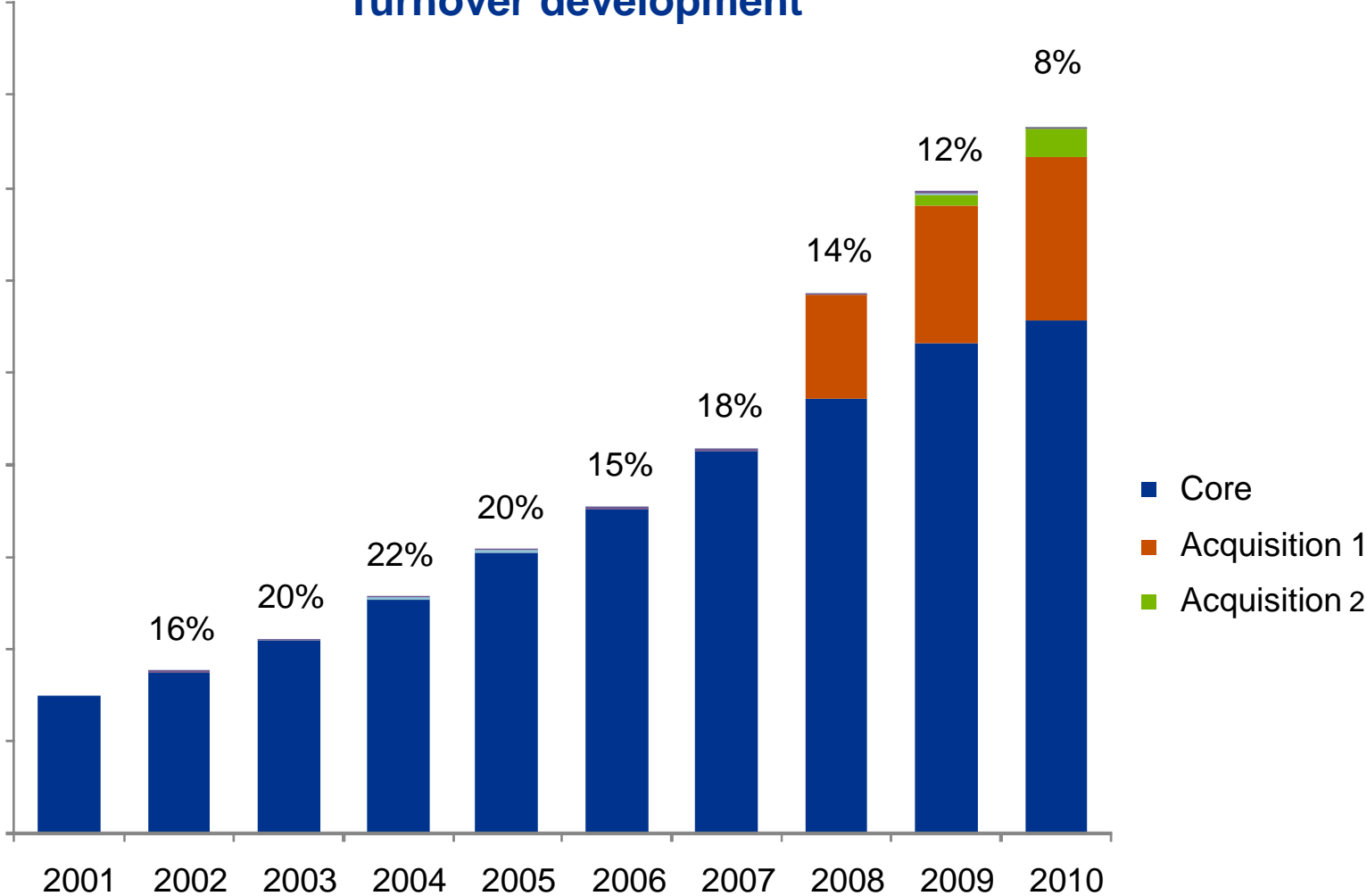
- Inferior status of current healthcare system versus increase in middle class

■ Infrastructure

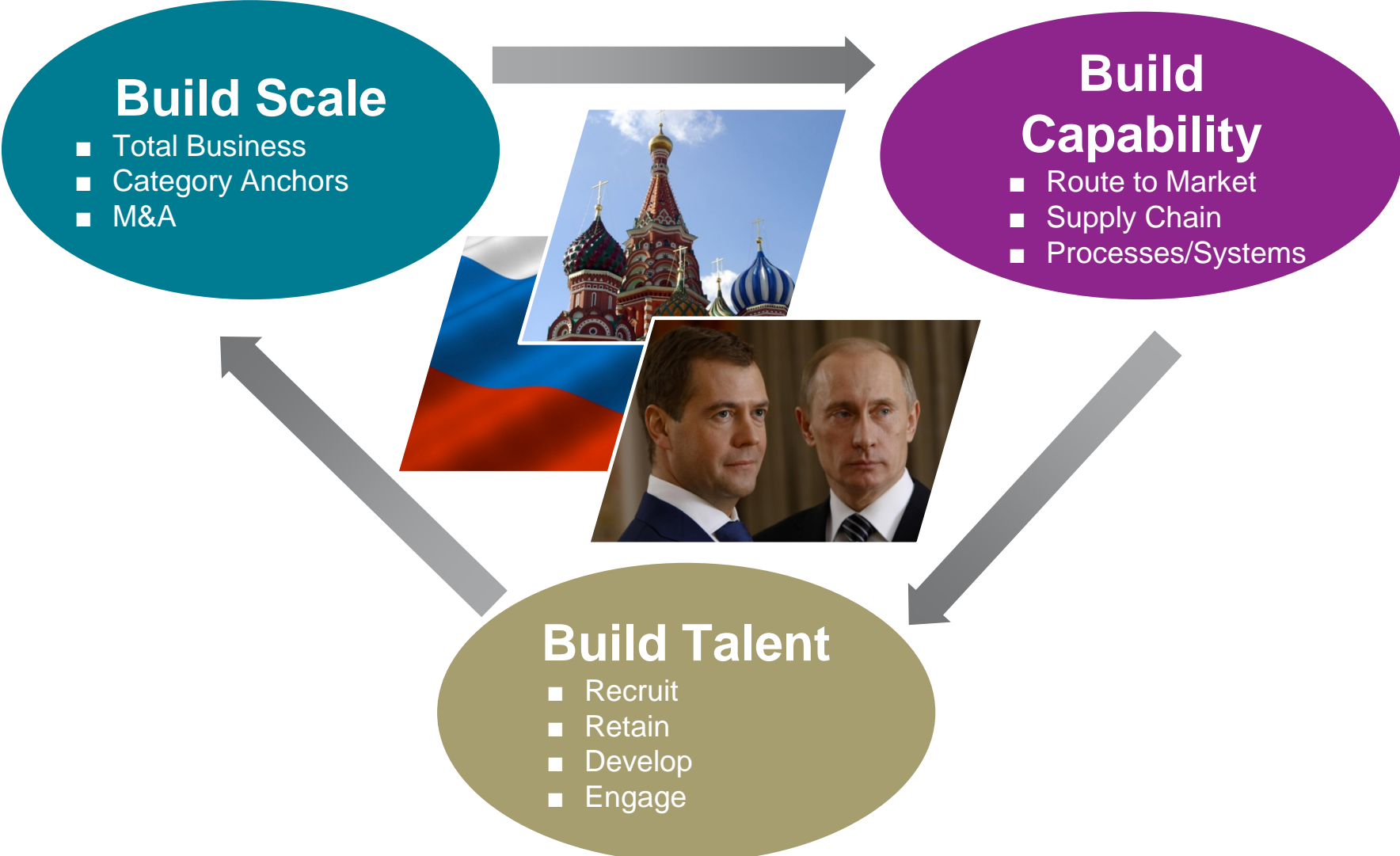
- Outdated and obsolete
- Private investment needed

Case study: Combination of organic growth & M&A

Turnover development



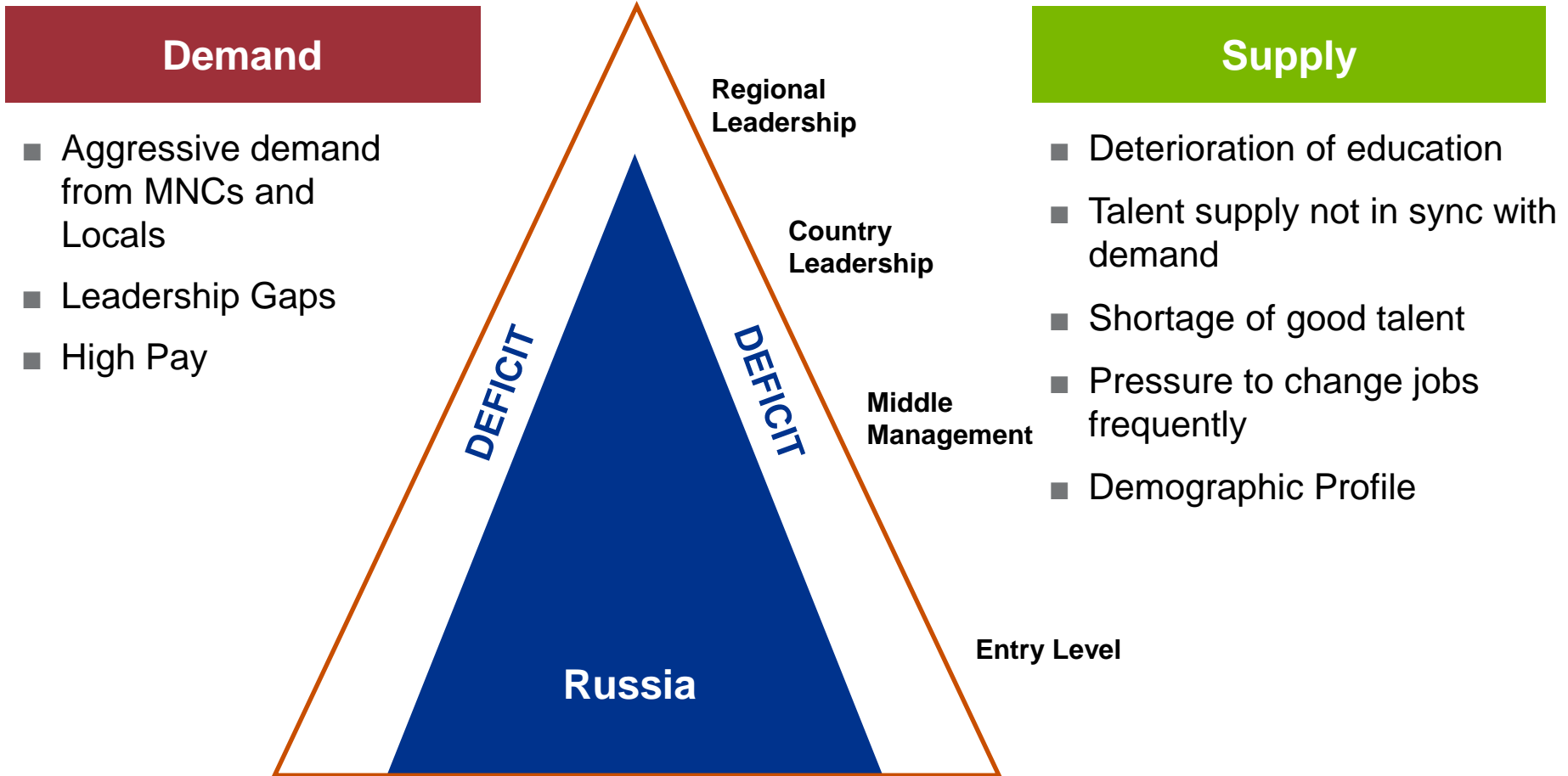
Strategy into Action: Our Key Challenges



Constant Transformation: Change Management is Key

Build
Capability







**Supply
Chain**

**Distributors
&
Retail**

**Talent
Recruitment
& Retention**

**Government
Relations**

**Business
Model**

Insights from executing growth strategy

Three Acquisitions in 4 Years

Carefully
consider
compliance /
governance
risks

Well
prepared
post
acquisition
strategy is
Key

Do not cut
corners on
due
diligence!

Even so ...
do not
overpromise
short term
results

Local
Government
relations
make the
difference

Be clear
about what
you can and
cannot do

Ensure
transparent
and
competitive
tenders

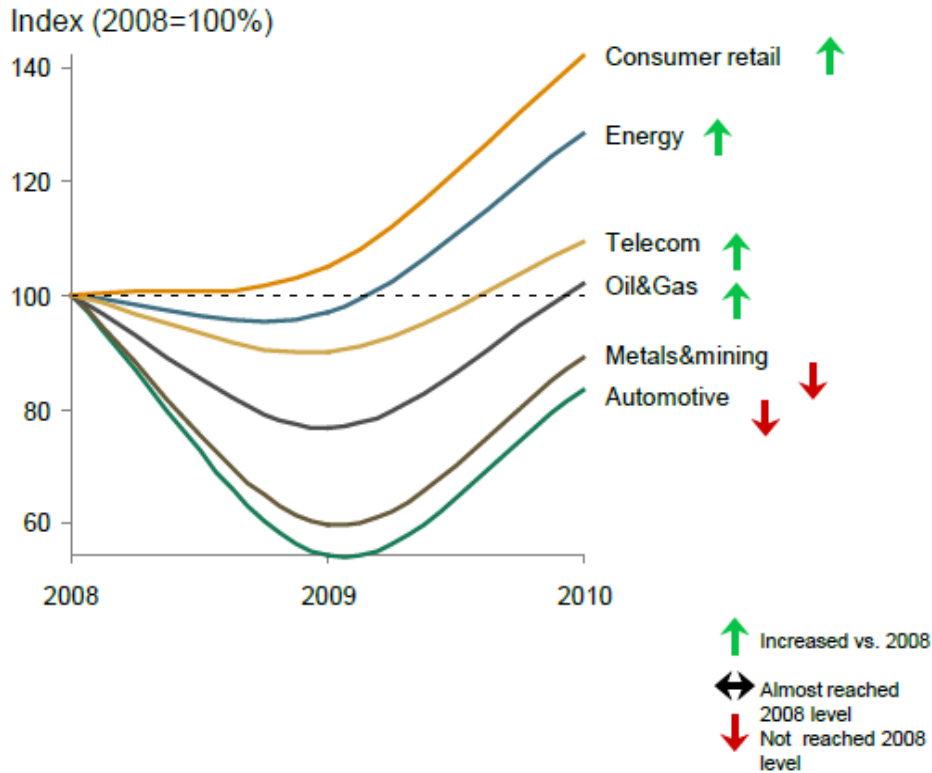
And Significant Greenfield Investment



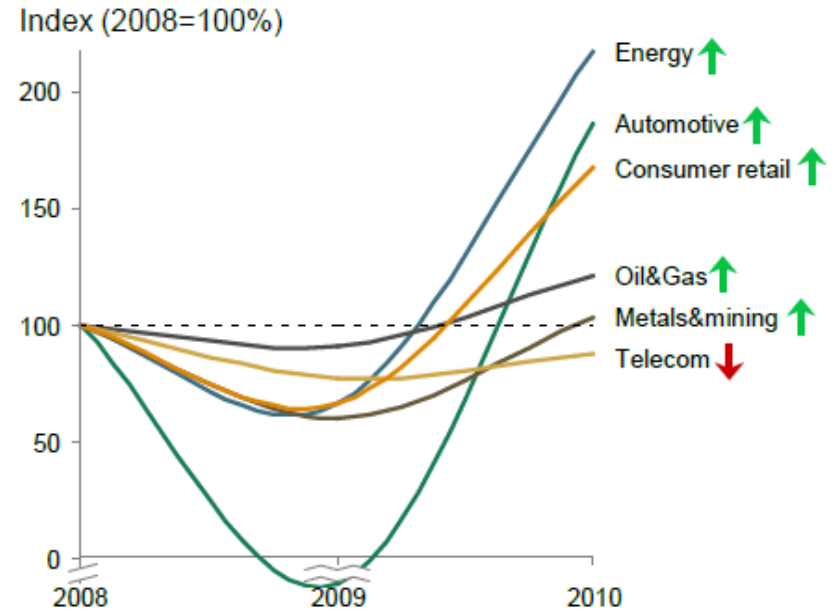
Outlook

Most Russian industries grew in 2010 vs 2008

Revenues¹



EBIT²

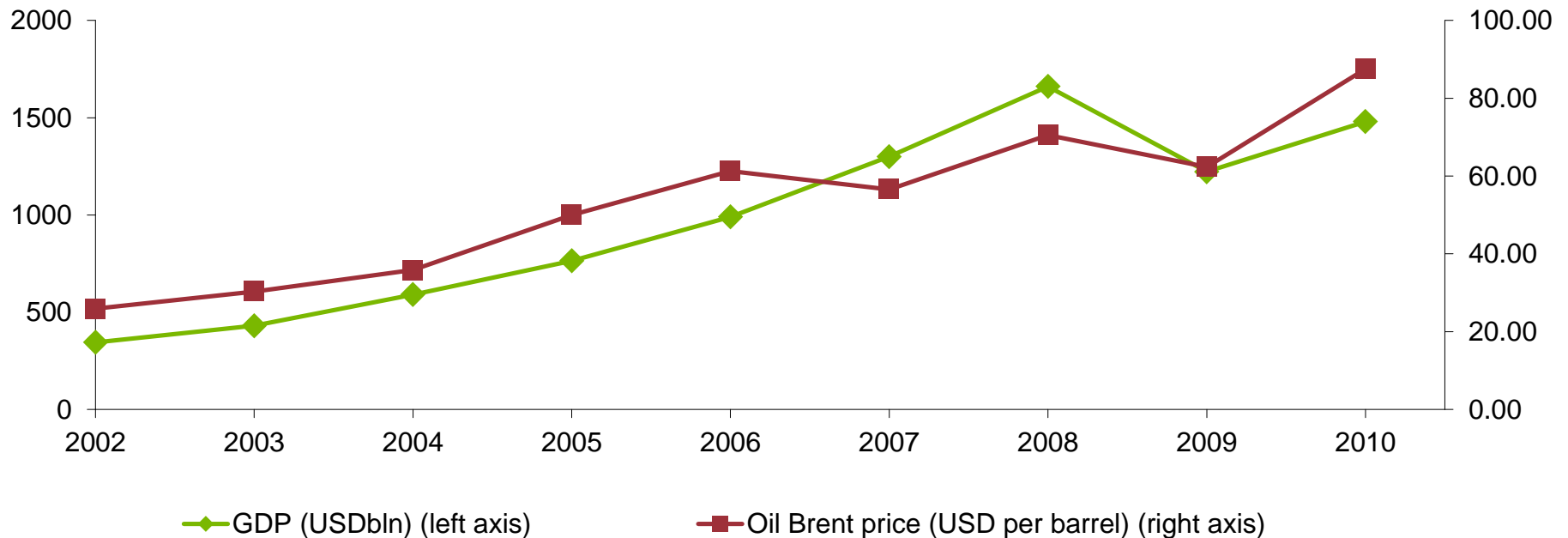


1. Total revenue by industries of top-500 Russian companies (by revenue in 2010) 2. Total EBIT by industries of top-500 Russian companies (by revenue in 2010)
Source: SPARK; BCG analysis

Source: BCG - Russia economic outlook and Key Developments, SPARK interfax

Oil price key driver of economic activity

Russia's GDP and Oil Brent price correlation



Source: RTS Index, Russia internal market oil prices, KPMG calculations, Agency for Economic forecasts

- Forecast of the oil price remains stable (depending on the global economic climate)
- Russian stock market also strongly correlated to the oil price
- Goldman Sach's revised GDP forecast 2012 back to 4%

Conclusions

■ PERCEPTIONS *VS.* REALITY

■ RUSSIA IS TOO BIG
TO IGNORE

■ INVESTMENT CLIMATE
IS IMPROVING

■ IT IS A 2-WAY PROCESS

■ AND A LONG-TERM GAME



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