

Russia: Invest now or be too late?

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Russia Update: Stronger and More Stable

Since the 1998 financial crisis, Russia's economy has stabilized and greatly expanded

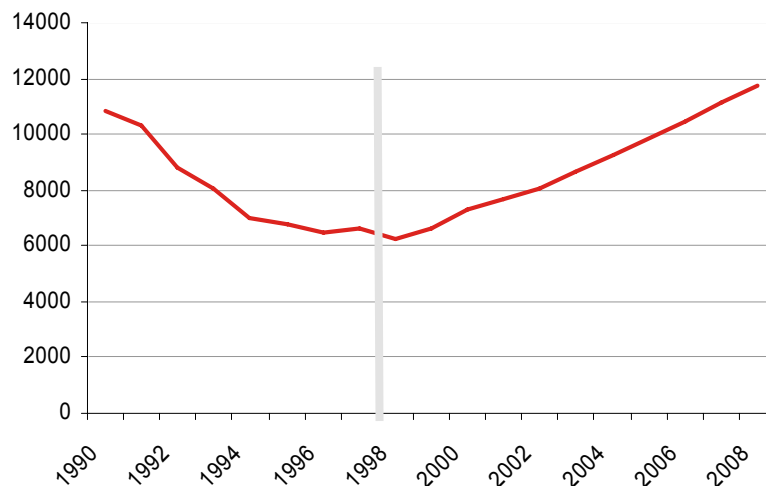
- Average real GDP annual growth rate since 1998 - 6.9%
- GDP grew from \$200 billion in 1999 to \$1.2 trillion in 2007
- Personal consumption rate more than doubled since 1999
- Total Central Bank reserves: \$406 billion
- Stabilization Fund: \$121.7 billion
- Public Sector Debt: declined from \$152 billion in 1998 to \$37 billion in 2007
- Due to become the 8th-largest economy in the world in 2007 (using purchasing power parity exchange rates)

After 7 years in office, Putin's approval ratings are **higher than ever at 80%**, though public trust of leaders in general is low

An unprecedented majority of the public report they are **more or less happy with life**, and optimistic about the future



Russia Real GDP produced (billions of Ruble)



Source: The Economist Intelligence Unit
Russia Country Data Annual Time Series, 2007

Beyond Natural Resources: Consumer Boom Presents New Opportunities

The emerging Russian middle class of 30 million is set to become one of the largest in the world...Russian consumers tend to be early adapters of new technology with discerning tastes...

- 12th-largest retail market in the world, to become 9th-largest by 2010
- Expanding to provincial cities

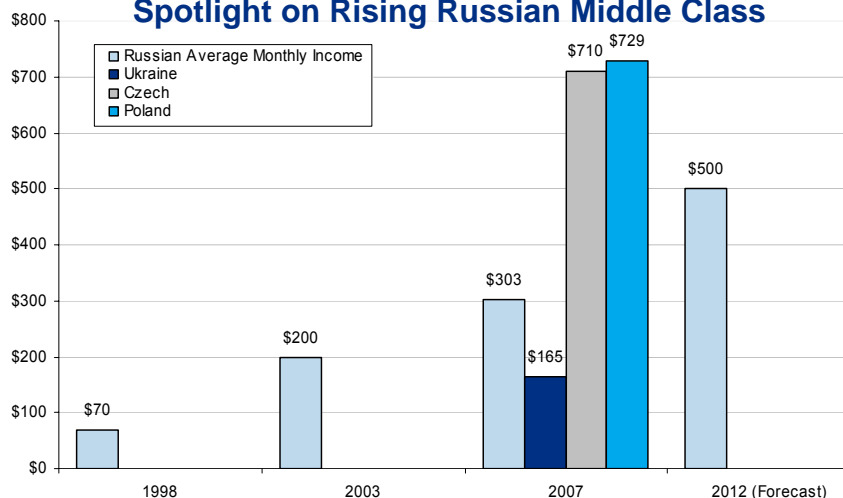


Russia's cities are growing, and 14 cities have populations near 1 million

Rank	City	Population	Rank	City	Population
1	MOSKVA (Moscow)	8,297,000	26	Novokuznetsk	564,000
2	St Petersburg	4,678,000	27	Penza	528,000
3	Novosibirsk	1,400,000	28	Ryazan	528,000
4	Nizhny Novgorod	1,358,000	29	Orenburg	523,000
5	Ekaterinburg	1,267,000	30	Naberezhnye Tchelny	521,000
6	Samara	1,165,000	31	Lipetsk	519,000
7	Omsk	1,153,000	32	Tula	506,000
8	Kazan	1,092,000	33	Tyumen	502,000
9	Ufa	1,088,000	34	Kemerovo	492,000
10	Chelyabinsk	1,084,000	35	Astrakhan	482,000
11	Perm	1,014,000	36	Tomsk	481,000
12	Rostov-na-Donu	1,003,000	37	Kirov	466,000
13	Volgograd	992,000	38	Cheboksary	459,000
14	Voronezh	903,000	39	Ivanovo	459,000
15	Krasnoyarsk	876,000	40	Bryansk	455,000
16	Saratov	875,000	41	Tver	451,000
17	Tolyatti	720,000	42	Kursk	440,000
18	Ulyanovsk	668,000	43	Magnitogorsk	427,000
19	Izhevsk	654,000	44	Kaliningrad	425,000
20	Krasnodar	640,000	45	Nizhny Tagil	393,000
21	Yaroslavl	614,000	46	Murmansk	379,000
22	Khabarovsk	609,000	47	Ulan-Ude	370,000
23	Vladivostok	607,000	48	Arkhangelsk	365,000
24	Irkutsk	591,000	49	Kurgan	364,000
25	Barnaul	580,000	50	Smolensk	351,000

Source: City Mayor's Statistics http://www.citymayors.com/features/euro_cities1.html

Spotlight on Rising Russian Middle Class



Source: Russian Ministry for Economic Development & Trade, <http://www.economy.gov.ru>, accessed 24th July, 2007

- 60% of FDI into Russia is now in the non-natural resources sector
- Russia ranked the second most attractive retail market in the world after India*
- 35 years after Pepsi and 17 years after McDonald's entered the market, many iconic brands are starting to follow suit (Campbell's, Starbucks)
- Key growth sectors include autos, construction, luxury goods, hospitality, advertising, banking and professional services

* AT Kearney 2007 Survey

FDI Rates and IPOs: Buoyant Regional Opportunities

Russia leads the way in attracting FDI in the region, followed by the Saudi Arabia and Turkey, despite concerns over corruption and ease of working in the business environment

Foreign Direct Investment (US \$MM)

	2000	2001	2002	2003	2004	2005	2006
Russian Federation	2,714.23	2,748.29	3,461.13	7,958.12	15,444.37	14,599.61	28,700
United Arab Emirates	(514.56)	1,184.32	1,306.69	4,255.96	8,359.43	12,000.00	8,300
Turkey	982.00	3,352.00	1,137.00	1,752.00	2,837.00	9,681.00	20,100
Ukraine	595.00	792.00	693.00	1,424.00	1,715.00	7,808.00	5,200
Poland	9,343.00	5,714.00	4,131.00	4,589.00	12,873.00	7,724.00	14,000
Romania	1,037.00	1,157.00	1,144.00	2,213.00	6,517.00	6,388.00	11,400
Egypt	1,235.40	509.90	646.90	237.40	2,157.40	5,375.60	10,000
Saudi Arabia	183.00	504.00	453.00	778.46	1,942.00	4,628.00	18,300
Kazakhstan	1,282.52	2,835.00	2,590.22	2,092.03	4,112.60	1,738.40	6,100

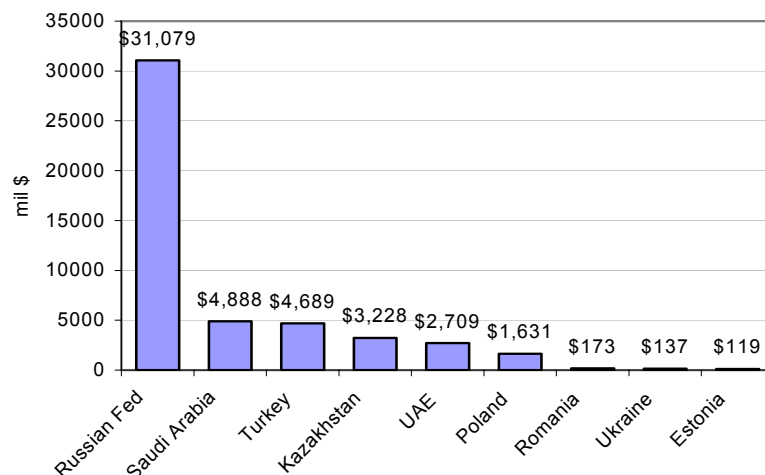
Eastern Europe Private Sector in GDP (in per cent)

Estonia	80
Kazakhstan	65
Latvia	70
Lithuania	75
Poland	75
Romania	70
Russia	65
Ukraine	65

Source: United Nations Conference on Trade and Development (UNCTAD), Foreign Direct Investment Database, <http://stats.unctad.org> Accessed on 17 October 2007

Source: European Bank for Reconstruction and Development, EBRD Transitions Report 2006, accessed 27 August 2007. www.ebrd.com.

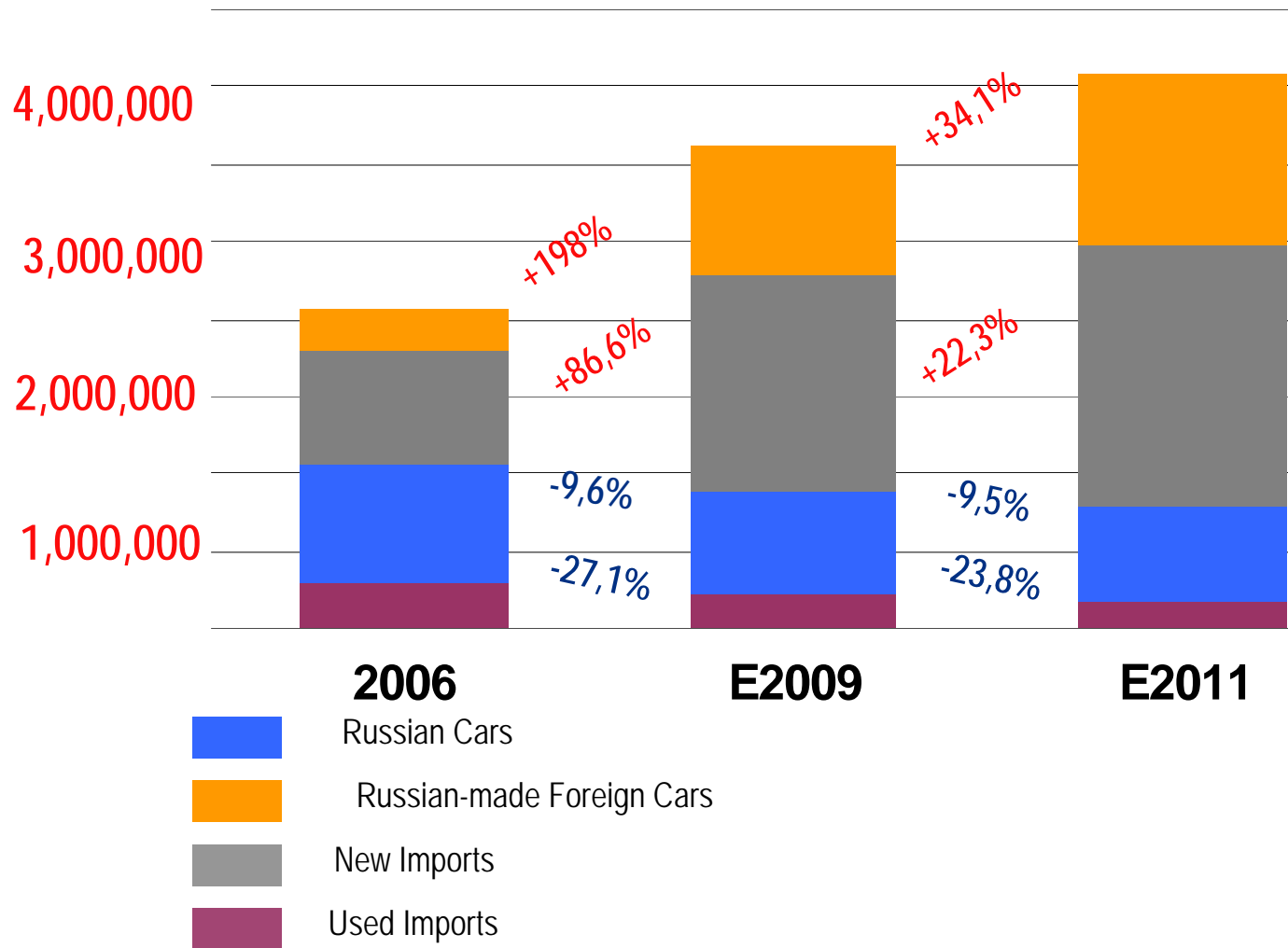
IPOs in the Region (July 2006- July 2007)



Source: Thompson Financial SDC Platinum, accessed 1st July, 2007

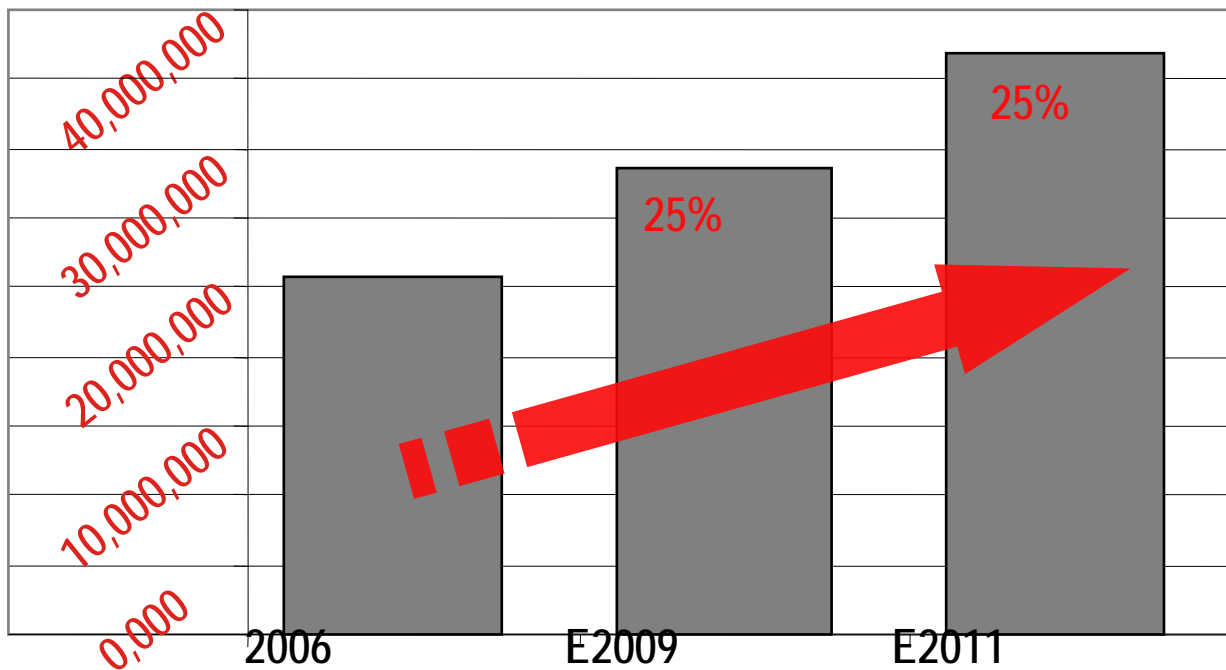
Russian Passenger Vehicle Market

Annual sales of passenger cars in Russia



Source: NAMI, Autostat, Ernst & Young Estimates

Total number of passenger cars in Russia



OEM Presence in Russia

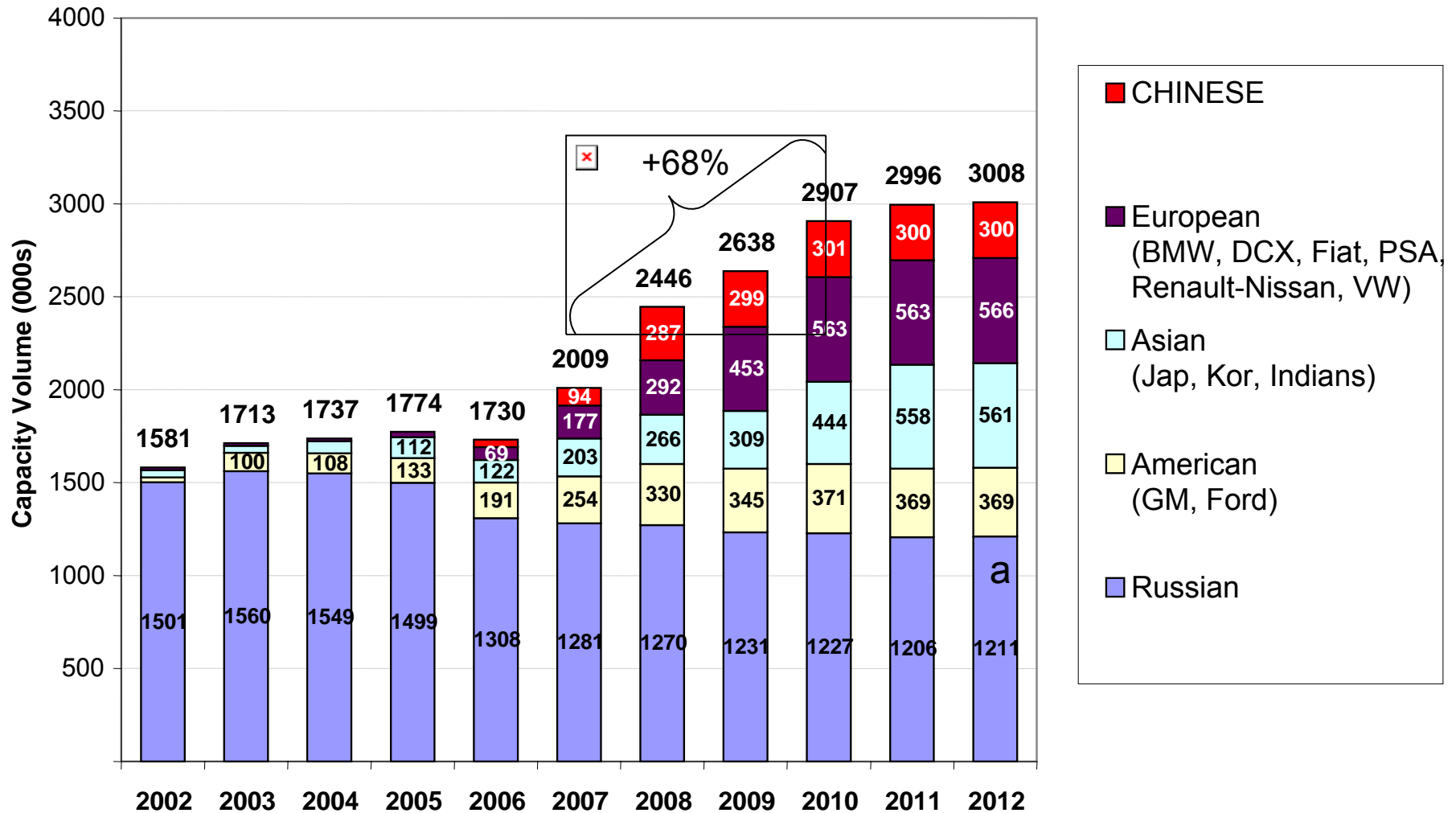


Company/Brands	Capacity (thou.)	Investments (US\$ mln.)
AvtoVAZ – Magna**	450	1,700
GM*	230	815
Chery**	200	150
FIAT	155	175
VW	115	396
Geely**	100	50
Renault	80	150
BYD**	70	155
BAIC	70	115
GAZ – Siber (Chrysler)	65	131
PSA**	60	243
TATA**	60	150
Great Wall**	50	100
Toyota	50	140
Nissan	25	219
Intral**	25	96
SsangYong	25	N/A
GAZ-LDV	20	N/A
ISUZU	20	N/A
VOLVO/Renault Trucks	15	140
RZGA-Hyundai	6	120

* - in St.Petersburg and N.Novgorod ** - TBD or not confirmed

Russia total vehicle production capacity to increase almost 70%

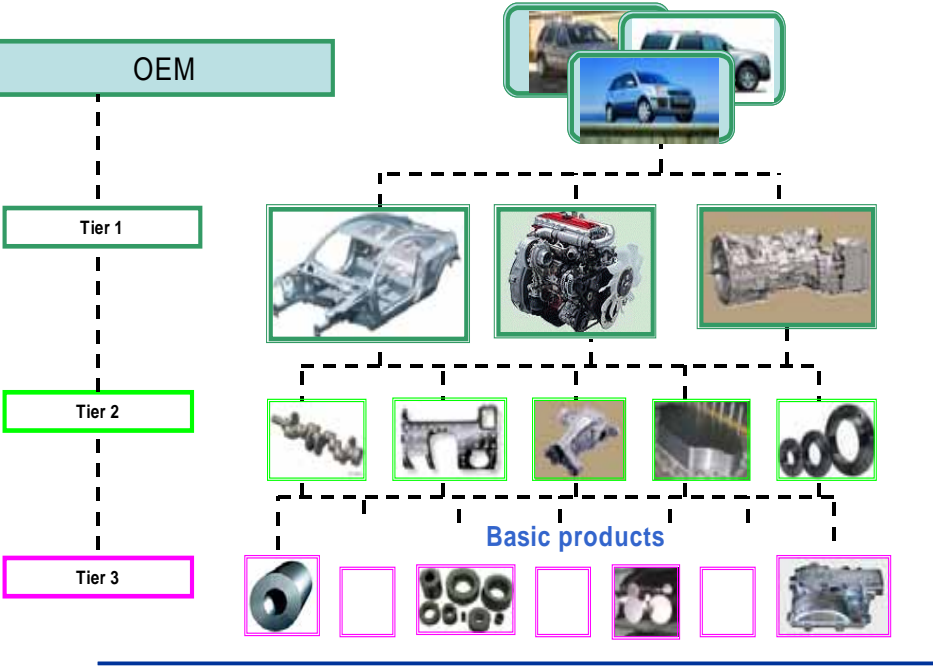
Russia Production Capacity by OEM Group



Source: AutoFacts 2007

Russian automotive industry division of operations (2010, prognosis)

Traditional suppliers chain



Operations level	Function	Russian-based	Foreign
OEM	Cars production	Most likely	Most likely
R&D	Research of car-platforms and cars	Probable	Most likely
T1 (system integrator)	Research and production/supply of major aggregates to assembling	Unlikely	Most likely
T2	Production/supply of components for T1; R&D of components for T1	Most likely	Probable
T3	Production of details and elements for T2	Most likely	Unlikely
Raw material	Supply of raw material for T1-T3	Most likely	Unlikely

Source: NAPAC 2007

Case-Study#1: GM-Avtovaz Joint-Venture: 2002

- GM was of one of the first major automotive investors in new Russia
- Equity Partners: AvtoVaz and EBRD
- Net Capacity: 75,000 units per year
- Produces Niva and Viva
- **Success Milestones:**
 - Demand for GM-Avtovaz vehicles dramatically exceeds expectations
 - Exceeded their production volume expectations
 - Profitable annually and never borrowed money
 - Well trained workforce
 - Operates its plant similar to any of the GM facility worldwide
- **Opportunities:**
 - The Viva is generating high volume
 - Localization of parts: “commercial viability”
 - Avtovaz using JV as training and talent rotation area



Case-Study#2: Toyota: 2007

- Toyota was first Japanese automotive investor in Russia
- Equity Partners: EBRD (20%)
- Net Capacity: 50,000 units per year
- Produces Camry
- **Success Milestones:**
 - Introducing new quality standards in Russian automotive industry
 - Received high Government attention and support (Putin attended production plant opening ceremony)
- **Opportunities:**
 - Opens door for Japanese spare parts producers in Russia
 - Production line is expected to expand



Conclusion

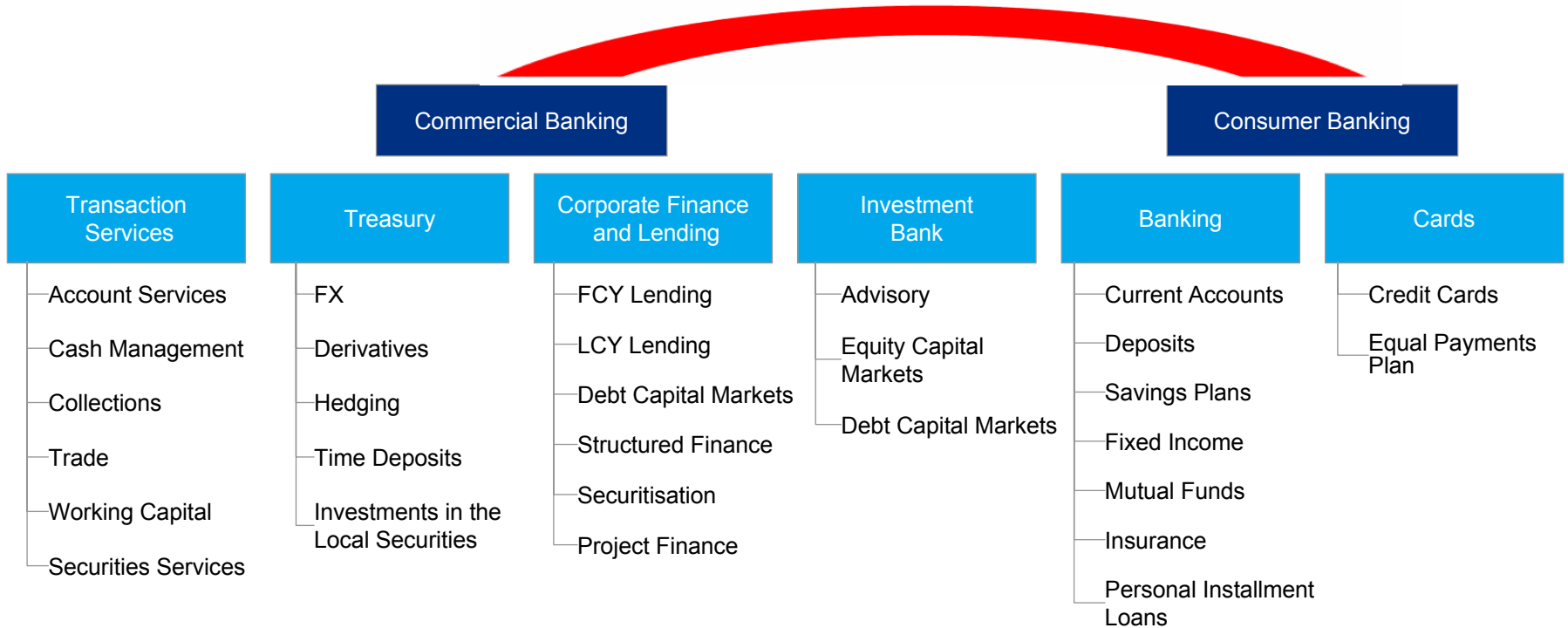
- 1891 – first automobile appears in Russia
- 1917 – more than 30 car-producing plants in Russia
- 1940 – 145 390 cars were produced in the USSR
- 1970 – “Zhiguli” (future AVTOVAZ) production plant opens in Togliatti
- 1985 – 45 cars /1000 people ratio in the USSR
- 2002 – GM Avtovaz project starts
- 2006 – 500 new cars appear at the streets of Moscow every day
- 2007 – Toyota opens its production plant in StPete

Key investor tips

- Russia is expected to become 8th largest economy in the world in 2007 (using purchasing power parity exchange rates)
- Russian car market is expected to grow 68% within 2007-2011
- By 2011 volume of annual sales in Russian passenger cars market will outreach 4 mln
- Russian market creates opportunities to build cars where you sell them
- Russian market creates significant opportunities for suppliers, especially given the critical mass of assembly production now being installed



Citi in Russia – Long Established and Broad Product Offering



	No. of Employees		
	2005	2006	2007*
Corporate	400	485	600
Consumer	1800	2365	2500

Note: * September data

	No. of Customers		
	2005	2006	2007F
Corporate	1,200	1,300	1,500
Consumer	200,000	300,000	450,000

Note: F - forecast

Citibank Launched Operations in Russia in 1994