

# The New Russian economy

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Mark T. Robinson  
President, Citibank ZAO, Russia

# Agenda

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Emerging Russia

Innovating Russia

# Agenda

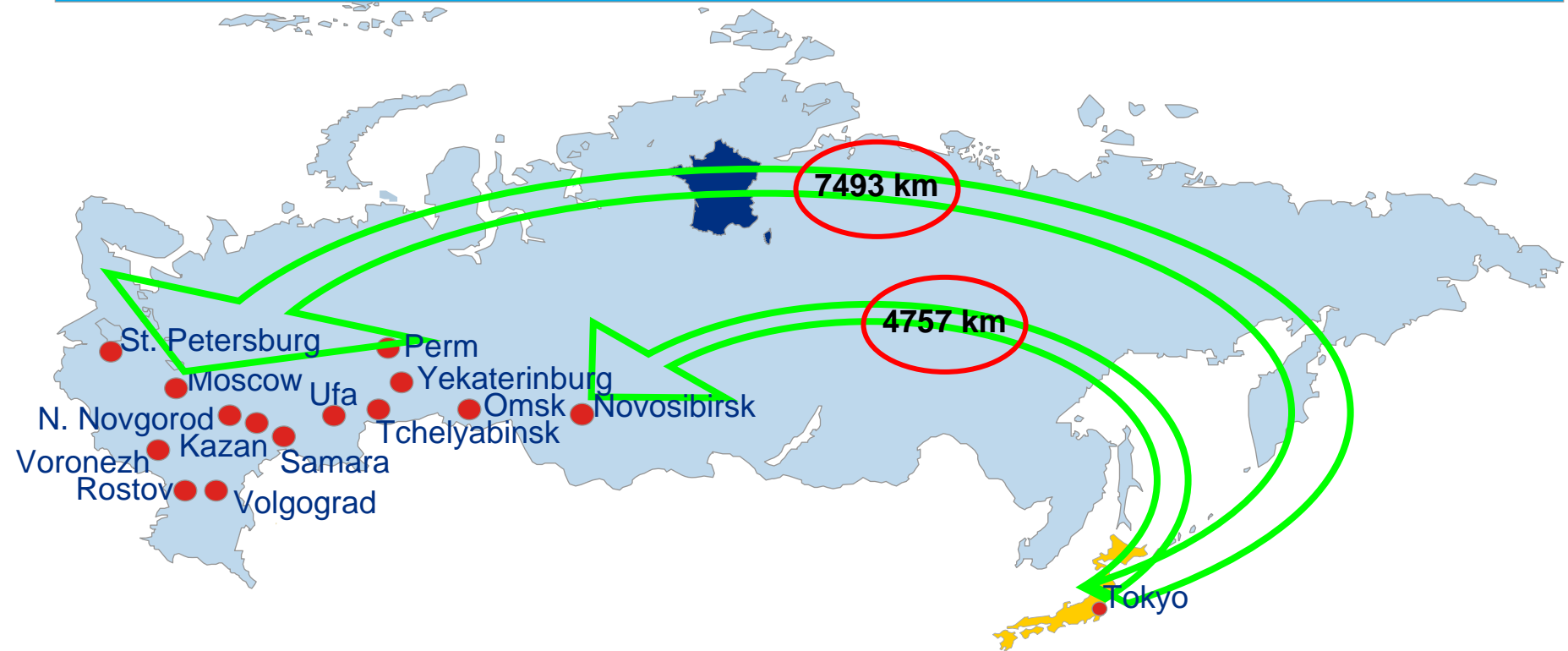
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Emerging Russia

Innovating Russia

# Russia at a Glance

Equals 31 x France!



- Area – 17mn. km<sup>2</sup> (World's #1)
- Population – 142mn (World's #10)
- Eleven time zones

- 1-2 daily non-stop flights from Moscow to Tokyo
- 9.5 hours flying time from Moscow to Tokyo
- Moscow-Tokyo time difference: +5 hours

# Russia Already 10<sup>th</sup> Largest Economy in the World

- Forecast to jump to Top 6 player by 2020

## GDP

### 2007 <sup>(1)</sup>

Rank	Country/Region	US\$Bn
1	United States	13,893
2	Japan	4,464
3	Germany	3,284
4	China	3,220
5	United Kingdom	2,682
6	France	2,434
7	Italy	2,046
8	Spain	1,401
9	Canada	1,284
10	Russia	1,160
11	Brazil	1,007
12	India	988
13	South Korea	969
14	Mexico	871

### 2020 <sup>(2)</sup>

Rank	Country/Region	US\$Bn
1	United States	28,453
2	China	12,626
3	Japan	7,597
4	Germany	4,840
5	United Kingdom	4,289
6	Russia	3,988
7	India	3,648
8	France	3,507
9	South Korea	2,800
10	Italy	2,657
11	Canada	2,394
12	Spain	2,130
13	Brazil	1,961
14	Mexico	1,683

Source: EIU 2007.

Note:

(1) Estimate.

(2) Projection

# Russia is a BRIC Leader



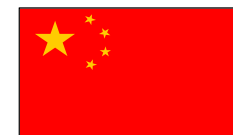
**Brazil**



**Russia**



**India**



**China**

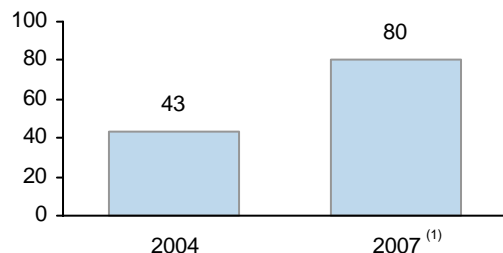
Size of Economy <sup>(1)</sup> (US\$bn)	1,007	1,160	988	3,220
Economic Growth <sup>(2)</sup> (%)	3.4	6.0	8.3	9.8
Size of Equity Mkts <sup>(3)</sup> (US\$bn)	874	1,042	821	1,146
Growth 2001–2006 (%)	309	1,055	713	202
Growth of Acquisitions <sup>(4)</sup> (%)	316	1,831	1,266	459
Growth of Equity Offerings <sup>(5)</sup> (%)	607	7,943	2,491	771
% of Global 2006–2007 IPO Offerings <sup>(6)</sup> (%)	>5	~10	<5	~20

## Notes:

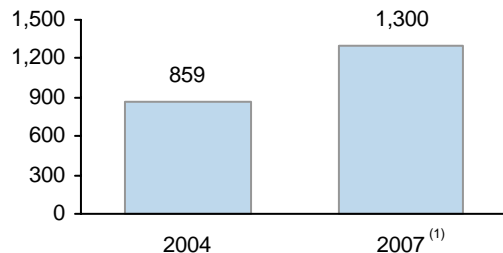
- (1) 2007 Nominal GDP; Source: EIU.
- (2) 2007P GDP growth; Source: EIU.
- (3) Market Cap as of December 2006 from Factset.
- (4) 2001–2006 Market Volume; Source: SDC – Any Involvement.
- (5) 2001–2006 Equity offerings – Equity and Equity Linked.
- (6) 2006–2007YTD IPOs as of 17 September.

# Russia Benefiting from Commodity Price Trends

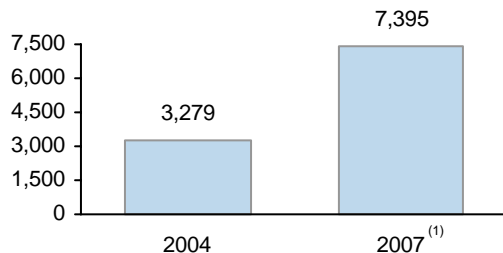
Oil US\$/Barrel



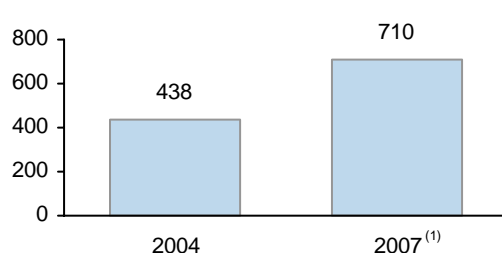
Platinum US\$/Oz



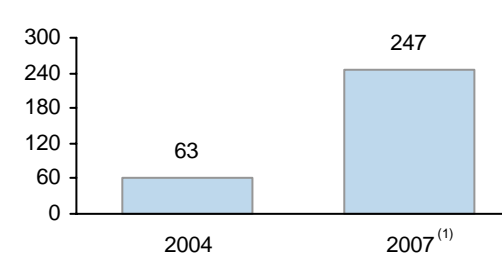
Copper US\$/Tonne



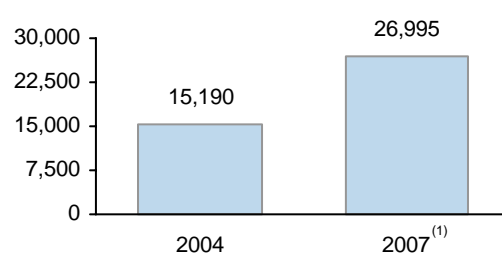
Gold US\$/Oz



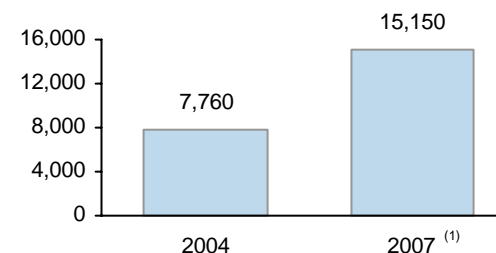
Uranium US\$/Kg



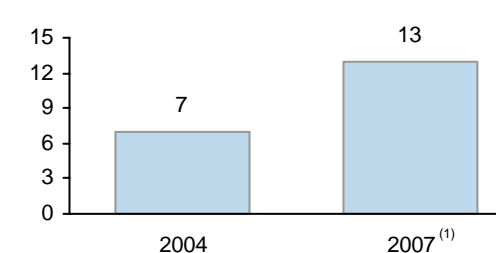
Nickel US\$/Tonne



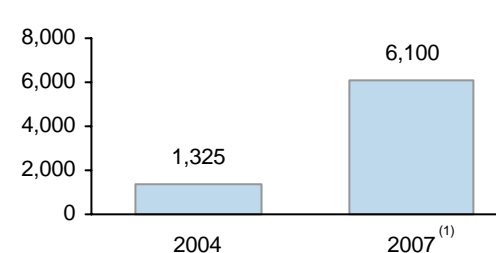
Tin US\$/Tonne



Silver US\$/Oz



Rhodium US\$/Oz



Russia is the Winner

Source: Oil, Gold, Platinum, Silver – Citi Research; Uranium and Rhodium – Reuters, Copper, Nickel, Tin – LME.

Note:

(1) Data as of 14 September 2007.

# Russia Leads in Oil & Gas...

- Russia supplies 40% of EU's gas requirements\*

## Oil Net Exporters (Average Daily Figures)

Rank	Country	Barrels (000s)
1	Saudi Arabia	8,651
2	Russia	6,565
3	Norway	2,542
4	Iran	2,519
5	UAE	2,515
6	Venezuela	2,203
7	Kuwait	2,150
8	Nigeria	2,146
9	Algeria	1,847
10	Mexico	1,676
11	Libya	1,525
12	Iraq	1,438
13	Angola	1,363
14	Kazakhstan	1,114
15	Canada	1,071

Source: EIA, IPM, 2007.

\*RBC

## Natural Gas (Proven Reserves)

Rank	Country	m <sup>3</sup> (tn)	% of Total
1	Russia	47.8	26.6
2	Iran	26.7	14.9
3	Qatar	25.8	14.3
4	Saudi Arabia	6.9	3.8
5	UAE	6.0	3.4
6	Nigeria	5.2	2.9
7	Algeria	4.6	2.5
8	Venezuela	4.3	2.4
9	Iraq	3.2	1.8
10	Kazakhstan	3.0	1.7
11	Turkmenistan	2.9	1.6
12	Indonesia	2.8	1.5
13	Australia	2.5	1.4
14	Malaysia	2.5	1.4
15	Norway	2.4	1.3

Source: BP research 2005.

- Commodity Exports  
Benefiting Financials

## Foreign Currency Reserves

Rank	Country	US\$m
1	China	1,434
2	Japan	946
3	Russia*	434
4	Taiwan	263
5	South Korea	257
6	India*	251
7	Brazil*	162
8	Singapore	152
9	Hong Kong	141
10	Germany	117
11	France	102
12	Malaysia	97
13	Algeria	90
14	United Kingdom	85
15	Italy	82

Source: EIU, September

\* October data



# Russia – Already Major Equity Market, Potential is Big

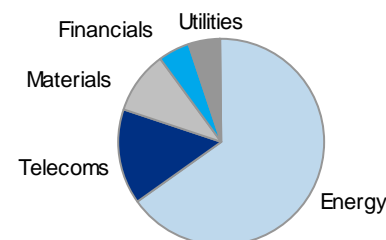
## 30 Companies with Market cap. >=US\$6bn

Rank	Company	Sector	Mkt Cap US\$bn
1	Gazprom	Oil and Gas	278.6
2	Sberbank	Banks	94.1
3	Rosneft	Oil and Gas	93.8
4	Lukoil	Oil and Gas	74.8
5	Norilsk Nickel	Metals	51.9
6	Unified Energy Systems	Utilities	47.8
7	Surgutneftegaz	Oil and Gas	45.9
8	TNK-BP	Oil and Gas	32.9
9	VTB	Banks	30.8
10	MTS	Telecoms	24.8
11	Novolipetsk Steel	Metals	23.6
12	Severstal	Metals	22.0
13	Gazpromneft	Oil and Gas	21.6
14	NOVATEK	Oil and Gas	16.4
15	PIK Group	Real Estate	13.9
16	MMK	Metals	13.8
17	Tatneft	Oil and Gas	13.2
18	AFK Systema	Telecoms	13.1
19	Mosenergo	Utilities	9.9
20	Pipe Metal Company	Metals	9.9
21	Evrocement	Build. Materials	9.3
22	Uralkali	Fertilizers	9.0
23	Mechel	Metals	8.8
24	Polyus Gold	Metals	8.5
25	Baltika Brewery	Food	8.2
26	Rostelecom	Telecoms	8.1
27	OGK-3	Utilities	6.6
28	OGK-4	Utilities	6.3
29	Silvinit	Fertilizers	6.2
30	OGK-5	Utilities	6.1

Source: Bloomberg, 19 October 2007.

## New Listings Will Bring More Sector Diversification

### Sector Breakdown, by Market Cap (MSCI)



### Leading EM Equity Market

Rank	Country	% of EM MSCI
1	China	17.4%
2	Korea	14.9%
3	Brazil	12.0%
4	Taiwan	11.0%
5	Russia	8.9%
6	South Africa	6.8%
7	India	6.8%
8	Mexico	5.0%
9	Malaysia	2.3%
10	Israel	2.1%
11–25	Others	15.5%
Grand Total:		100%
















Source: MSCI, Citi, 18 October' 07.

### Improving Risk Profile

Rating Agency	31.12.04	Current
S & P	BB+	BBB+
Fitch	BBB-	BBB+
Moody's	Baa3	Baa2

Source: S&P Sovereign Ratings History Since 1975; Fitch – Complete Sovereign Rating history; Bloomberg

# Russia's Banking Market is Becoming More Competitive

1 July 2007	Rank by Net Assets	Name	Net Assets, US\$bn
	1	Sberbank	154.1
	2	Gazprombank	47.3
	3	VTB	40.8
	4	Bank of Moscow	15.9
	5	Alfa-bank	15.8
	6	Rosselkhozbank	13.9
	7	Uralsib	12.6
	8	Raiffeisenbank	11.1
	9	IMB	9.6
	10	Russkiy Standard	9.3
Total Top 10			330.9
	16	Citi	6.0
	35	BSGV	2.3
	42	ING Bank	1.9
	48	Deutsche Bank	1.5
	55	BNP Paribas	1.3
Total Top 200			564.4

Note: Top 5 Banks – about 45% of Total 1,160 Banks; Top 200 Banks – about 90% of Total 1,160 Banks.

Source: RBC, (5 September 2007).

## Japanese Banks in Russia



Bank of Tokyo-Mitsubishi UFJ

MIZUHO



三井住友銀行 SUMITOMO MITSUI BANKING CORPORATION

Daiwa Securities  
SMBC

NOMURA

Toyota Bank

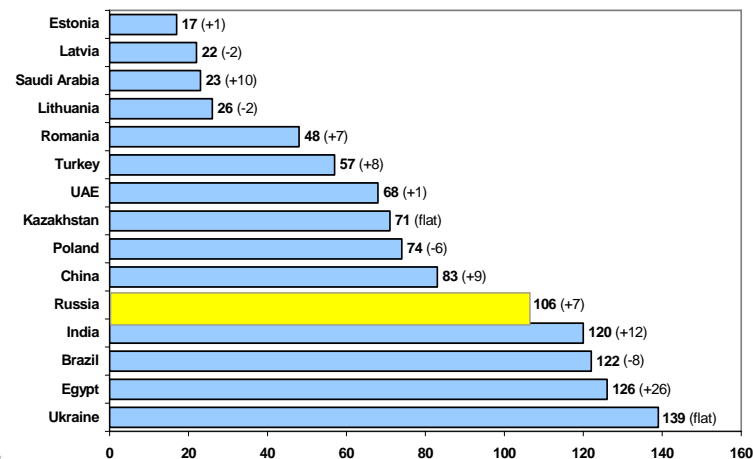
# There are Still Challenges to Doing Business in Russia

Russia retains many of the complex bureaucratic procedures present in many post-communist countries

## World Bank Ease of Doing Business Indicators (Ranking of 175 Countries)

Economy	Dealing with Licenses	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Enforcing Contracts
	Rank	Rank	Rank	Rank	Rank	Rank
Estonia	14	156	21	48	33	29
Latvia	82	96	85	13	51	3
Saudi Arabia	47	40	3	48	50	136
Lithuania	57	124	4	36	83	18
Romania	90	145	123	13	33	37
Turkey	128	136	31	68	64	34
UAE	38	65	8	115	107	144
Kazakhstan	173	22	72	48	51	28
Poland	156	78	81	68	33	68
China	175	86	29	84	83	20
<b>Russia</b>	<b>177</b>	<b>101</b>	<b>45</b>	<b>84</b>	<b>83</b>	<b>19</b>
India	134	85	112	36	33	177
Brazil	107	119	110	84	64	106
Egypt	163	108	101	115	83	145
Ukraine	174	102	138	68	141	46

## Ease of Doing Business Rank



(+/- change from 2006)

Source: World Bank Doing Business Indicators 2007, accessed on 27 September 2007. [www.doingbusiness.org](http://www.doingbusiness.org).

## Transparency International Corruption Perceptions Index 2007

Country Rank	Country	2006 CPI Score	2007 CPI Score
28	Estonia	6.7	6.5
34	UAE	6.2	5.7
51	Latvia	4.7	4.8
51	Lithuania	4.8	4.8
61	Poland	3.7	4.2
64	Turkey	3.8	4.1
69	Romania	3.1	3.7
72	China	3.3	3.5
72	India	3.3	3.5
72	Brazil	3.3	3.5
79	Saudi Arabia	3.3	3.4
105	Egypt	3.3	2.9
118	Ukraine	2.8	2.7
<b>143</b>	<b>Russia</b>	<b>2.5</b>	<b>2.3</b>
150	Kazakhstan	2.6	2.1

Source: Transparency International, Corruption Index 2006.  
Accessed on 29 August 2007.

- In recent years, Russia's bureaucracy has expanded and its corruption ranking has declined. Government has set fighting corruption as key priority.

# Agenda

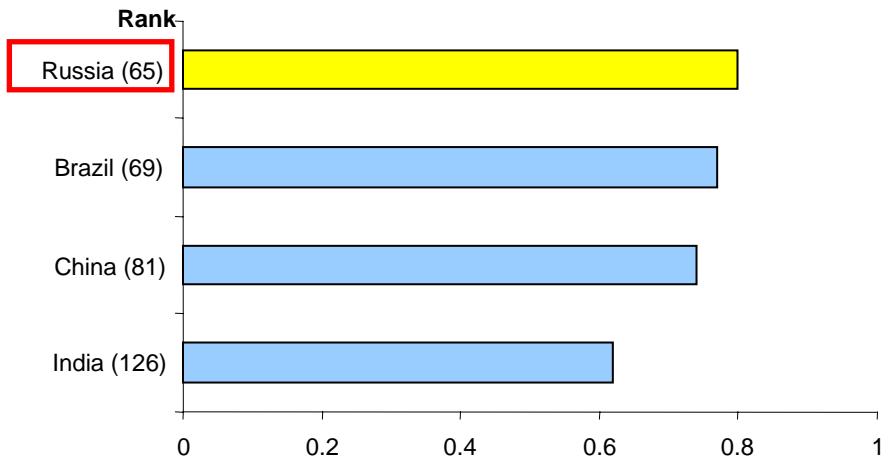
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Emerging Russia

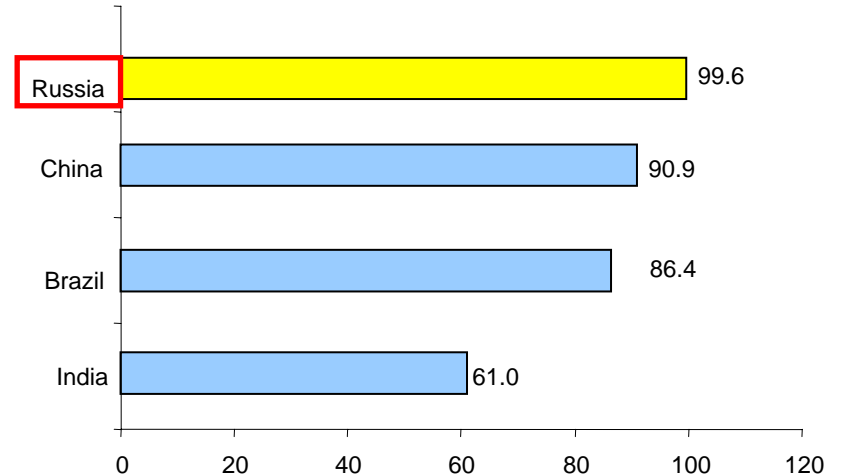
Innovating Russia

# Exceptional Strength in Intellectual Capital

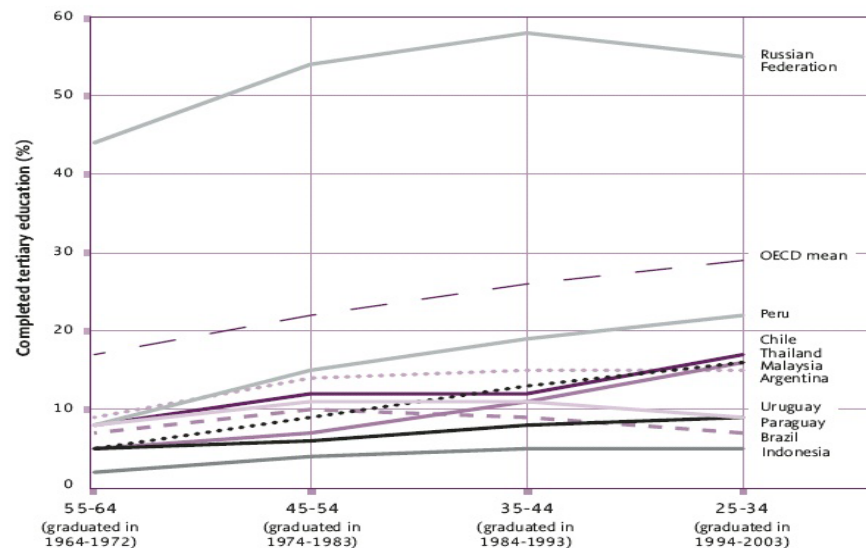
## Leads BRICs in Human Development Index



## Highest Literacy Rate among BRICs



## Leader in Higher Education

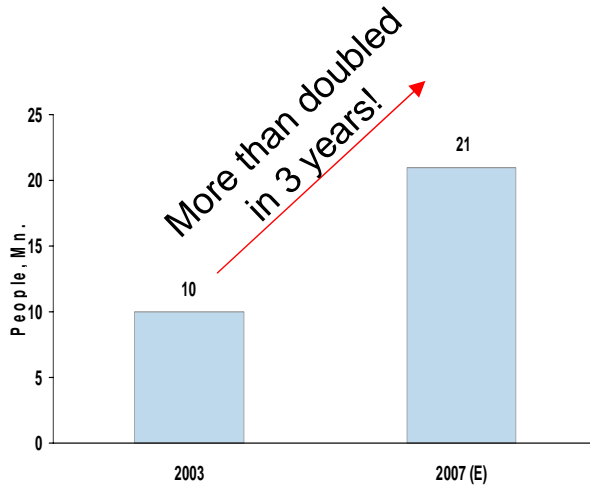


Source: UNESCO/OECD, 2005.

Sources: UNESCO, OECD, Economist

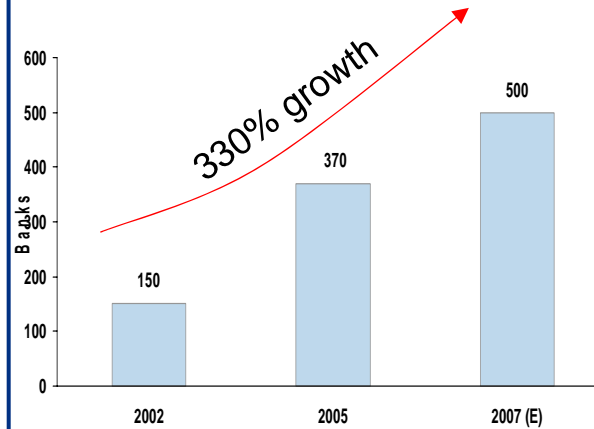
# Internet Usage Gives Huge Potential for Innovative Banking

Number of Internet Users



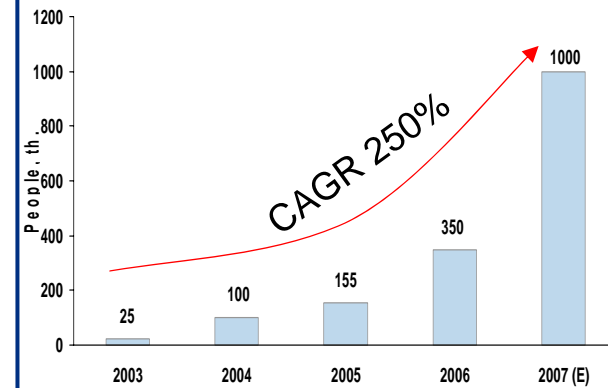
Source: cnews.ru (accessed 10/17/07), RBC, International Telecommunication Union

Number of Banks Offering I-Banking



Source: cnews.ru (accessed 10/17/07), RBC

Number of I-Banking Users



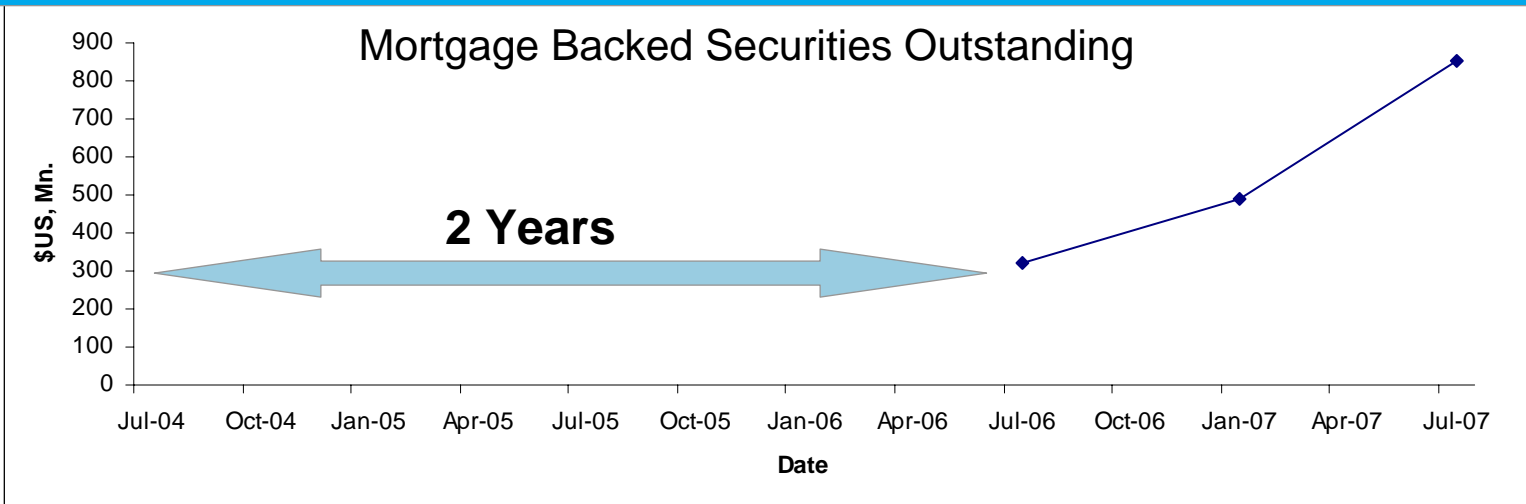
Source: cnews.ru (accessed 10/17/07), RBC

# Innovation Coming Quickly to Russia's Mortgage Market

## Mortgage Market Developing Fast



## First Local Currency Securitization Just 2 Years After Launch of Mortgage Programs



# Innovative Approach to Corporate Finance Management

Traditional Economic Development Scheme “Growth->Optimization->Cost-Saving->Investment” Turned into “Growth/ Investment->Optimization/ Cost-Saving” in Russia

Russia Economic Development	Product	Fin. Markets	Corporates
Growth/ Investment	Funding, Leasing	Short term FX & Money Market/ Stock Exchange/ Bond Market	Funding/ Funding/ Funding
Optimization/Cost-saving	Hedging, Insurance	Long term FX & Money Market/ Derivatives Market	Hedging/ “Alternative Funding”/ Risk Management

- **New Methods of funding introduced**, e.g. Synthetic RUR Funding -> USD Libor Linked Loans + Cross Currency Swap -> Synthetic Fixed RUR Funding
- **Market Indices introduced:** Derivatives Market and Money Market Benchmark (MosPrime) Becoming More Important
- **Local Derivatives Law in place:** All Long-Term Derivatives Were Previously Booked in London – Starting This Year Local Law Supports Derivatives ( Local ISDA under Development)
- **Investor base diversification** (Samurai bonds)



# Agenda

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Emerging Russia

Innovating Russia

In January 2007, Citi released a Climate Change Position Statement, the first US financial institution to do so. As a sustainability leader in the financial sector, Citi has taken concrete steps to address this important issue of climate change by: (a) targeting \$50 billion over 10 years to address global climate change: includes significant increases in investment and financing of alternative energy, clean technology, and other carbon-emission reduction activities; (b) committing to reduce GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (c) purchasing more than 52,000 MWh of green (carbon neutral) power for our operations in 2006; (d) creating Sustainable Development Investments (SDI) that makes private equity investments in renewable energy and clean technologies; (e) providing lending and investing services to clients for renewable energy development and projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

**efficiency, renewable energy & mitigation**



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