



Is Russia still a good place to invest?

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Finance & Investment Committee

The mission of the Finance and Investments Committee is to assist in and contribute to the continued improvement of the investment climate in the Russian Federation for European business interests by addressing critical finance issues.

Working Groups have been established to address specific issues. These include:

- Accounting Standards and Methodologies WG
- Auditing Procedures and Internal Controls WG
- Capital Markets WG
- Leasing WG



“Russia Super Invest, OAO”

(Top 12 - GDP Growth)

In 2008
Russian
GDP grew
by:

- 8.5% (q1),
- 7.5% (q2),
- 6.2% (q3).

	2000	2001	2002	2003	2004	2005	2006	2007	2000-2007 Average
1 China	8.4	8.3	9.1	10.0	10.1	10.4	11.6	11.9	10.0
2 India	5.7	3.9	4.6	6.9	7.9	9.1	9.8	9.3	7.1
3 Russia	10.0	5.1	4.7	7.3	7.2	6.4	7.4	8.1	7.0
4 Spain*	5.1	3.6	2.7	3.1	3.3	3.6	3.9	3.7	3.6
5 Brazil	4.3	1.3	2.7	1.1	5.7	3.2	3.8	5.4	3.4
6 Canada	5.2	1.8	2.9	1.9	3.1	2.9	3.1	2.7	3.0
7 UK*	3.9	2.5	2.1	2.8	2.8	2.1	2.8	3.0	2.7
8 US	3.7	0.8	1.6	2.5	3.6	2.9	2.8	2.0	2.5
9 France*	3.9	1.9	1.0	1.1	2.5	1.9	2.2	2.2	2.1
10 Japan	2.9	0.2	0.3	1.4	2.7	1.9	2.4	2.1	1.7
11 Germany*	3.2	1.2	0.0	(0.2)	1.2	0.8	3.0	2.5	1.4
12 Italy*	3.7	1.8	0.5	(0.0)	1.5	0.6	1.8	1.5	1.4



* Member of EU.

SOURCE: www.imf.com

“Normal” crisis?

- 1907 – US Bankers' Panic
- 1929 – Wall Street Crash of 1929: The Great Depression
- 1973 – Stock market crash (end of Bretton Woods system and oil crisis)
- 1987 – Black Monday: DJIA dropped by 22.6%
- 1992 – Black Wednesday: GBP out of ERM
 - Sweden and Finland in banking shock
- 1997 – East Asian currency crisis
- 2000 – Bursting of the dot-com bubble: early 2000s recession in the developed world
- 2007 – Sub-prime and liquidity squeeze,
+ 9/15/2008 Lehman Brothers' collapse



Wish you were here

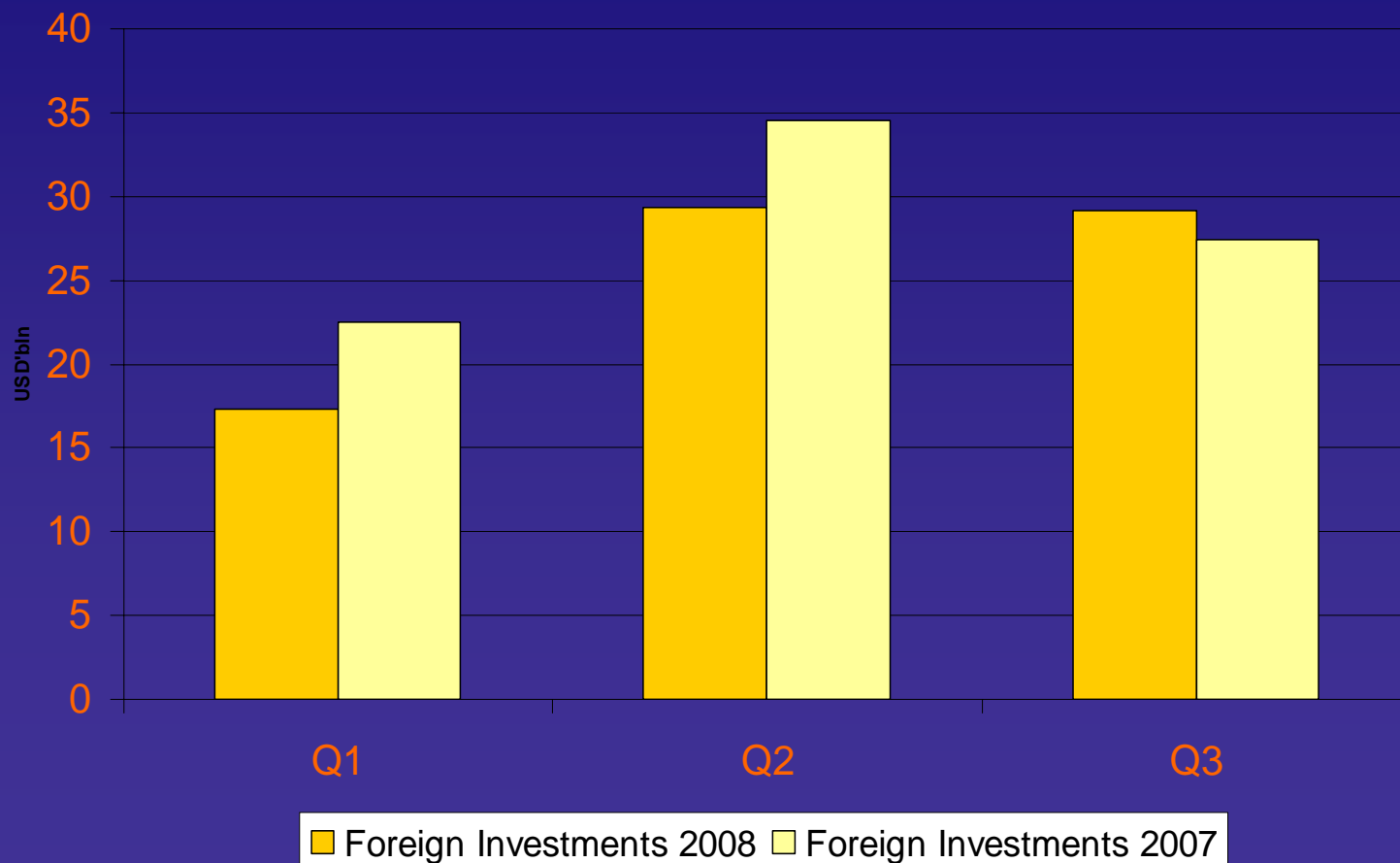
“So, so you think you can tell
Heaven from Hell,
Blue skies from pain.
Can you tell a green field
From a cold steel rail?
A smile from a veil?
Do you think you can tell?”

Pink Floyd



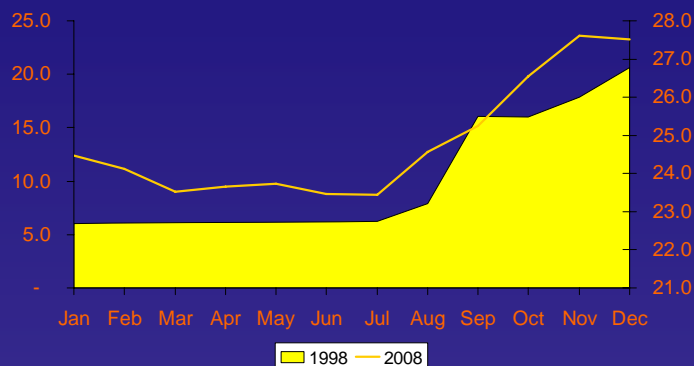
Foreign investments in Russia 2008

Cumulative FIs
at Sep. 30 –
USD 251.3 bln
(+27%),
during 9 m RF
received USD
75 bln. In FIs

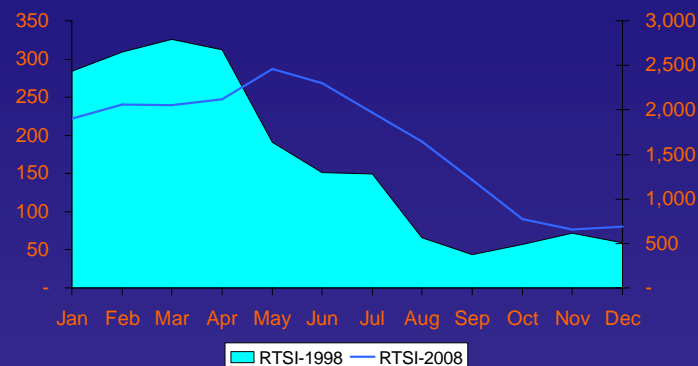


2008 = 1998

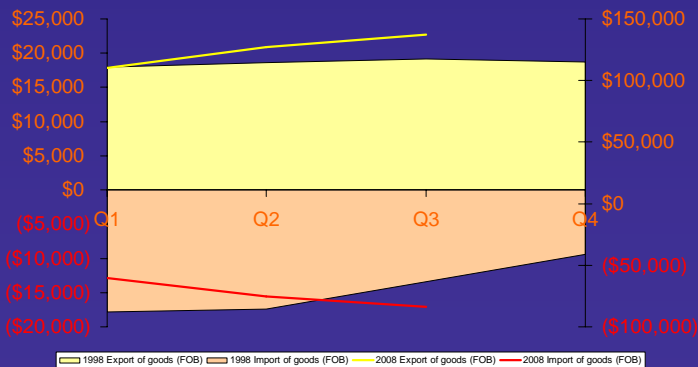
RUR/USD



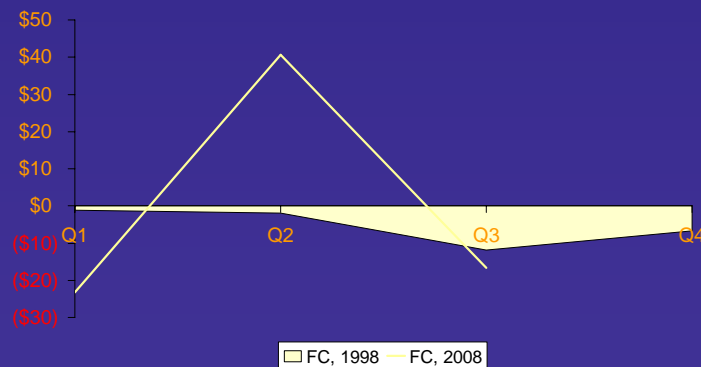
RTSI



Export/ Import



FOREIGN CAPITAL FLOW IN RUSSIA (USD'bln)



SOURCE: www.cbr.ru, www.gks.ru

2008 ≇ 1998 (1/2)

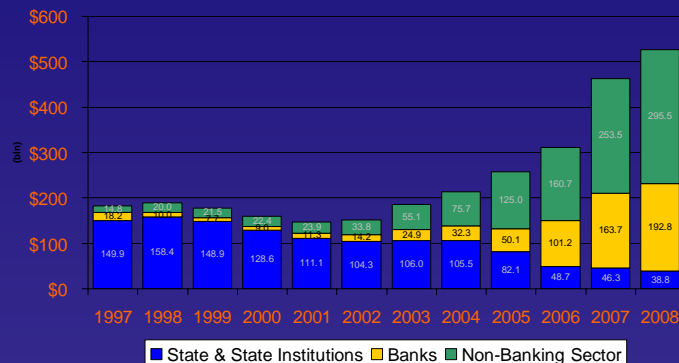
- Macro-economics is better
- Crisis is not just in Russia – it is world-wide
- Russian market is significantly integrated into world markets
- The RF Government is more experienced and has more resources at its disposal
- Price of oil is several times over
- Government plays active role in business

FIC

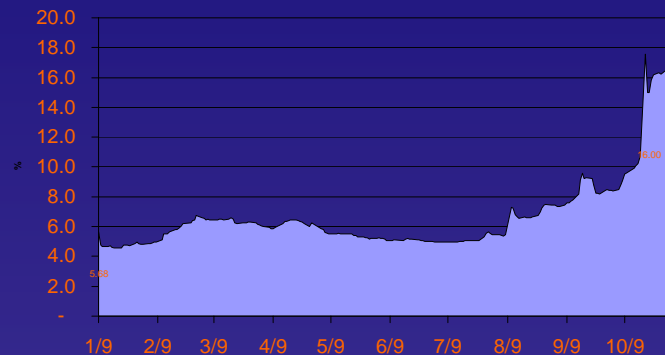


2008 ≈ 1998 (2/2)

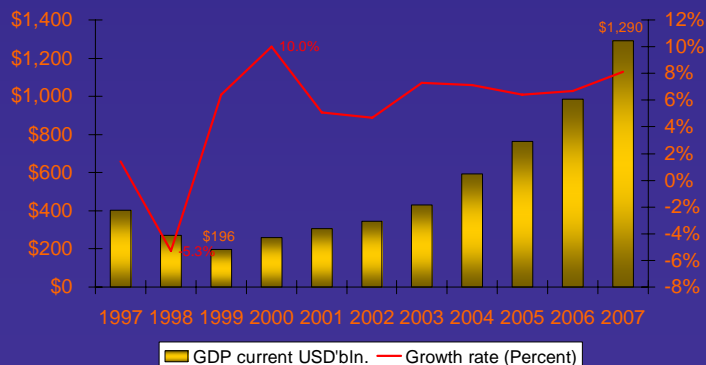
RF: EXTERNAL DEBT BY SECTOR



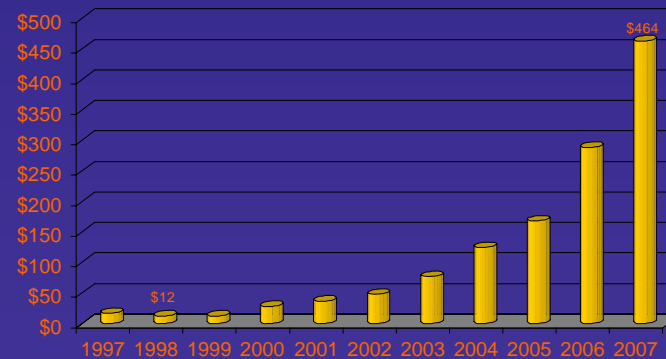
MosPrime (1m)



GDP and GDP Growth (USD/%)



Gold+Currency Reserve, USD'bln.



What does this all mean for our business?



Bad news

Likely Action

- Revenue declines
- Margins tend to become slimmer
- Cost of capital increases
- Overdue payments start to grow
- Need to re-act quicker than ever
- Cost cutting needs
- Downsizing
- Morale within the team becomes vulnerable
- Raiding
- Secure revenue, focus on your strong products
- Try to beat the time – talk to vendors sooner
Avoid borrowing/ try re-structuring
- Advance payments rule
- Re-structure management structure
- Scrutinize the costs and CUT
- Shall we all go down together?
- Take care of staff, particularly talents
- Be prepared



Help yourself

COMPANY	AMOUNT, USD'mIn
UC Rusal	4,500
Alfa Group	2,000
Gazprom Neft	1,000
Rosneft	800
PIK Group	300
RZhD	<u>270</u>
Total	8,870

Recipients of VEB funding are primarily government owned or controlled companies



When tomorrow comes...

INDUSTRY/ SECTOR	GROWTH IN PRIOR PERIOD	DECLINE IN PRODUCTION	REDUCTION IN HEADCOUNT	DECLINE IN INVESTMENTS
Banking	30-40% per annum	30-50%	30-40%	State Budget assistance
Oil extraction	Max. volume - 2007, Max. price - 6/08 (3 times over 18 m)	10-20% (15-30% - revenue, 8-9/08 \$ 15 bln. Down)	10%	Freeze on Eastern Siberian projects, Northern shelf, "heavy crude"
Gas extraction	Max price - 2008	Prices will go down in the end of 2008	10-20%	Slowing down in developing fields in sea, Irkutskaya Obl., Saha
Ferrous Metallurgy	3-5% per annum	15-25% (up to 40%)	10-30%	1.5-2.5 times
Non-ferrous Metallurgy	3-7% per annum. Max price - 2007/08	up to 20% (coupled with price reduction)	10-20%	Reduction to be announced
Car making	40%/ month growth (till 9/08)	up to 5%	5% - Sector, up to 20% at dealerships	Freeze on new projects
Retail, advertising & services	10-20% per annum	up to 20% (30% for advertising)	10-30%	2-3 times
Building-Construction	Price growth 4-5 times over 10 years	20-30% (price reduction by 20-50%)	10-30%	Freeze on new and some existing projects

FIC



SOURCE: www.csr-nw.ru

危机

“wei” - “ji”



Good news

Opportunity

- Competition will become weaker
- “Capitalization” on general “understanding”
- Assets are undervalued
- Downsizing

- M&A
- Obtaining more favorable terms from vendors
- M&A
- Bringing skilled workforce



Dr. Vladimir Ismailov



- Chairman, Finance & Investments Committee, Association of European Businesses in the Russian Federation
- CFO/ Deputy CEO, Specta AG
- PhD in Economics, Certified Auditor of the RF (1995), Member of the American Institute of CPA (exams passed in 2000).
- Significant experience in accounting, auditing and business management consulting in a variety of business sectors in Russia, CIS, UK and US (Deloitte).
- Held positions in number of MNCs in telecom services providers, OEM, S&P and steel product manufacturing industrial group.
- Area of expertise – foreign investments and finance

FIC



Thank you for your attention!

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