



Success in exporting to Russia's Oil & Gas sector;

**A PRACTICAL APPROACH TO A DIFFICULT BUT
INTERESTING MARKET**

Oil & Gas seminar

Amsterdam 21 September 2006

This presentation treats:

- 1. General information on the Russian market;**
- 2. Brief info on the potential of Russia's oil & gas sector;**
- 3. A practical approach to the Russian oil & gas sector;**
- 4. Conclusion and Answers to your questions.**



A. Our perception of Russia

- Mafia - Oligarchs
- Cold
- Russian bear
- Risks and danger
- Unreliable
- But, a positive exception; culture!



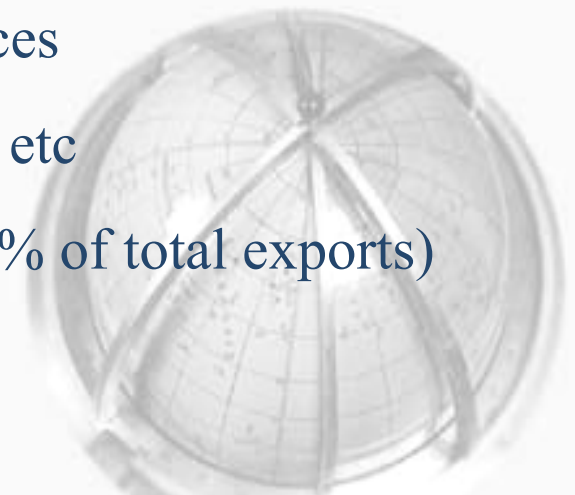
B. Russian reality

- Politics
 - Vertical power / Nationalisation / Media freedom / Democracy
- Society
 - Small middle class (SME) / Growing difference between rich and poor / Neglect of crucial sectors
- Cultural
 - Eurasiatic – slavic / No sense of individuality / Pride
- Economic
 - Oil and Gas / Purchasing power / Real disposable income / Growth in many sectors



C. Demographic and Geographic figures

- 143 Million people
- 17 million square kilometers
- 11 time-zones
- Natural resources
 - Oil = 9% - 12% of total world explored resources
 - Gas = 33% of total world explored resources
 - Coal, Diamonds, Precious Metals, Nickel, etc(Account for 30% of industrial output and 60% of total exports)



D. Economic environment

- 50% of Russia's foreign trade is with EU
- High world energy prices boost growth
- GDP 2005 = \$800 billion / growth 2005 = 6.4% / 2006 = 6.0%
- Inflation 10%
- 30% of economy in grey sector and not accounted for
- WTO Accession – an open question
- Average salary 2005 was \$302 (10% higher than in 2004)
- Increase in purchasing power
- 8% unemployment and 16% of the population (23 million) lives below the official subsistence level of \$95

E. Economic environment II

- A market of 143 million consumers with strong demand both for modern technology and equipment, consumer and industrial goods
 - 15% of population has a high purchasing power
 - Income is concentrated in large cities in Western Russia
 - 75% of household income is spent on consumption
 - Real disposable income rises 10% per year
 - 100.000 millionaires and 33 billionaires (25 in Moscow)
 - The aggregate net worth of Russia's 100 richest businessmen rose to U.S. \$248 bln in 2006 from \$141 bln in 2005
 - Inflow of foreign capital increased 90% between 2004-2005
- **There are many successful foreign businesses active in Russia!!**



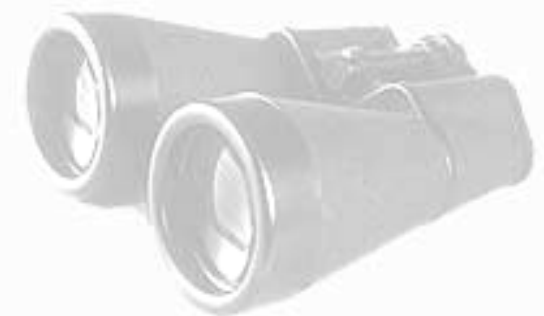
F. Rapidly developing Sectors of the Economy

- Oil & gas, energy
- Retail
- Agribusiness
- Manufacturing
- Services
- Trade
- Automotive and automobile
- Packaging
- Construction materials
- Telecom & IT
- Logistics



G. And what do you hear from Moscow's Expats?

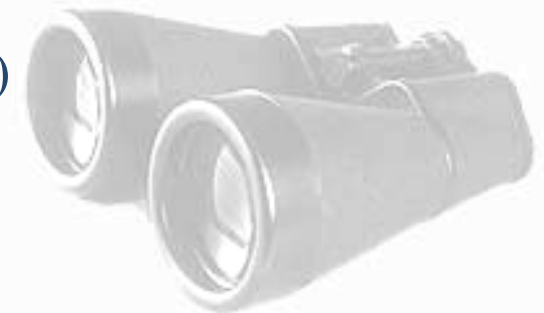
- Returns higher than anywhere else
 - Stock market 2005 ↑↑ 80%
 - Gazprom capitalization from 30 bln\$ to 300 bln\$ in 3 years
 - Upgraded country ratings (BBB, BAA2)
- It takes determination, flexibility, stamina and hard work but success in Russia is very well possible
- The foreign media are much too negative
- Russia is not more difficult than China



- B**R**IC

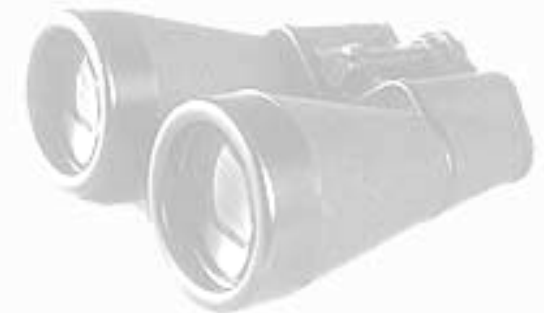
H. Successful in Russia I

- Independent Media (publishing)
- Baruch (clothing)
- AMS (advertising)
- Direct Star (telemarketing)
- Impress Media (real estate related publishing)
- Feadship and other Dutch yacht builders (luxury and super yachts)
- Stroymoda (office partitionings and funrniture - Ahrend)
- KPV Story (construction)
- Juralink (legal services)
- Provimi
- The Lighthouse Group (B2B services, publishing, energy)
- Etc.



H. Successful in Russia II

- ABN AMRO
- ING
- Rabobank
- Campina
- Unilever
- Shell
- Akzo Nobel
- Heineken
- Philips
- Tebodin
- Etc.



A1. The significance of Oil & Gas in Russia:

- Russian oil production in the first half of 2006 increased to 235.8 mm tons, a year-on-year improvement of 2.3%
 - With 9,236 million barrels of oil extracted June 2006 Russia overtook Saudi Arabia as world's leading oil producer
 - Oil accounts for 35% of Russian exports
 - Almost three fourths of Russian crude oil production is exported; the rest is refined in the country, with some refined products being exported.
- Gas production in Russia in January-July 2006 grew 2.6% against January-July 2005 and amounted to 383.05 bcm.

A2. The significance of Oil & Gas in Russia:

- The entire oil & gas industry accounts for 31% of GDP
- Oil & gas income accounts for 52.2 % of budget revenue
- Kudrin predicts that the federal budget deficit would reach 5.2 % of the GDP in 2006, and 5.4 % in 2007, exclusive of oil and gas revenue.
- Oil and Gas industry is already working close to capacity and will be able to manage output increases of up to only 2 % a year between now and 2009

B. Increasing need for equipment, technology and services

- Decaying infrastructure
- Low but continuing growth of production (demand is evident)
- Huge (un)tapped reserves but low cost production declining and demand for high-end efficient technology is increasing
- Offshore development
 - Russia's continental shelf area is the largest in the world - totaling more than 6.2 million km² of which 4 million km² has oil- and gas-bearing potential, as compared with a similar onshore area of about 6 million km².
- LNG
- Russian firms are going global
- As the price of oil per barrel grows, companies have more money to spend, driving up demand for Western goods and services
- Russia is generally getting richer with time, and people are learning English

A1. Selling to the Russian Oil & Gas sector (do your homework)

- Understand who could be your potential clients
- Know your target audience within the oil & gas firms
- Know the alternatives for your product that are used/applied in Russia
- Know and present your added value
- References in similar environments are key
- Allow for time to develop the market and to establish a name
- Presence at exhibitions does not directly help to sell but creates confidence in combination with direct sales efforts



A2. Selling to the Russian Oil & Gas sector (identify your buyer)

- Russian oil & gas companies have a very long track record and a high technological level
- Russian oil & gas companies are complicated organizations
- Distinguish between Western and Russian companies
- Distinguish between State and Private companies
- Gazprom is a state in itself and is becoming increasingly involved in oil and power.
- Don't forget the activities of Russian oil & gas companies abroad



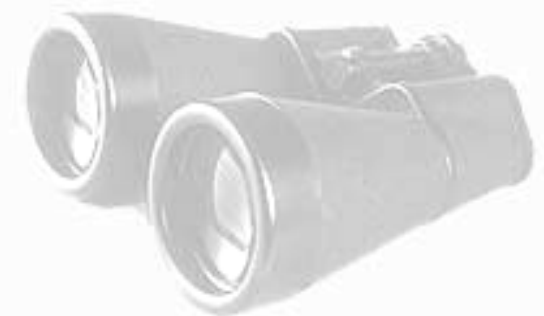
A3. Selling to the Russian Oil & Gas sector (identify your contacts)

- It's a people's business based on trust, therefore:
- Use Russian Distributors, Agents, Representatives
- Check if they have the right:
 - Background and network (Gubkin, Industry)
 - Knowledge of inner workings of oil & gas companies
- Know how the decision making process runs
- Talk to the right people
- Understand the different interests
- There are many people circling around oil & gas firms that present themselves as if
- However, it is often helpful to use middle-men



A4. Selling to the Russian Oil & Gas sector (use enablers)

- Use all possible business enablers:
 - EPC contractors
 - Design and engineering institutes
 - Your Western network
 - Sector specialists



B. Do's

- Enjoy Russia!
- Gain some knowledge of Russian language and culture
- Gain much knowledge of your market
- Understand that success in Russia requires time
- Dedicate and commit sufficient financial & human resources
- Be flexible and entrepreneurial
- Prepare for different bureaucratic procedures
- Limit your exposure and agree on pre-payment
- Use experienced local (general, tax and legal) advisors
- Understand the Russian perspective!



C. Understand the Russian perspective

- Be aware of cultural differences and language barriers
- Building of trust and personal relationships
- Informal communication networks
- Relatively short term vision
- Vertical authority
- During first contacts the Russian partner may promise more than can be delivered (without bad intent!)
- Russian businessmen can be imposing. Weakness is not shown.
- The external appearance is very important
- Russian businessmen think, speak and act fast!



D. Don't

- Underestimate the market or your Russian business partner
- Think Russia is Europe
- Think Russia is cheap
- Think it's easy to find the right staff
- Let yourself in with corruption (payments on the basis of contracts or through third parties)
 - Don't compromise on your business ethics.
- Hurry
- Be inflexible



E. Don't

- Give immediate exclusivity to distributors
- Forget to register your trademark
- Forget your visa
- Forget to have your passport on you at all times

F. Problems with exports

- Customs
- DDP-deliveries without local representation
- Certification and documents
- Need to compete with grey imports

Therefore important:

- Good and trustworthy agent/partner/consultant
- Good transport company experienced in working with Russia
- Solid preparation and uniformity of documents
- Conservative payment conditions



G. Russian Partner

- Choose your partner carefully
 - Good management
 - Strategy and Growth prospects
 - Decent company infrastructure
 - Sufficient transparency (tax, legal, finance, etc.)
 - Common sense; if it doesn't seem right it probably isn't.
- When in doubt: use advisor
- When still in doubt: Don't continue!!



Conclusion and Questions – Why Russia??

- The economy and spending will continue to grow
- A market and a source of natural resources that we cannot ignore
- The growth potential in the coming years is high
- Added value
- Many of your colleagues / competitors are already there

BUT

- Traditional problems will continue to exist so prudence and good preparation is advisable.

POLL SHOWS FOREIGN MANAGERS MORE OPTIMISTIC ON INVESTING IN RUSSIA

An opinion poll by PBN Company of top managers, board members and shareholders of 155 international companies either investing in Russia or considering such investment shows optimism. Most respondents believe that 2005 was favorable for foreign investment in the Russian economy, 94% of the companies surveyed plan to expand their operations in Russia in the next three years and 91% plan to increase their investment in Russia, up from 78% and 71% last year, respectively.

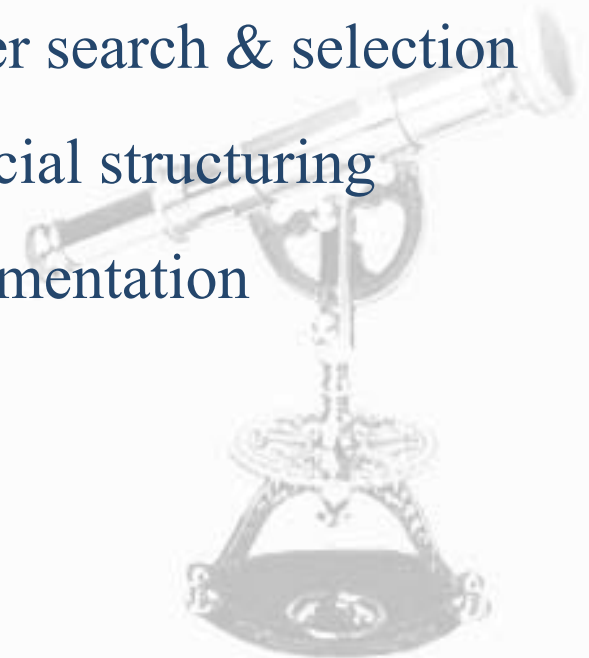
In addition, more than half of respondents believe that the investment climate in Russia's regions has improved, while 14% claim that it has become worse. The PBN company conducted the opinion poll for the Russian government's council on foreign investment and Russia's Economic Development and Trade Ministry.

Approach to Russian Market

- Step-by-step approach
- Practical
- Local assistance/partner
- Limited investment size
- Low-key

Typical steps to be taken

- Information gathering
- Business case development
- Partner search & selection
- Financial structuring
- Implementation



Tax environment

•Profit Tax	24%	over profit (17.5% to regional budget up to 4% reduction is possible)
•Income Tax	13%	over personal income (with
•Social Taxes	26% (max)	over pay-roll (medical, social, pension)
•VAT	18%	over turnover
•Property tax	2,2% (max)	over property
•Dividend tax	15% (30% to individuals)-(cross-border) and 9% (national)	

Profit Repatriation

Dividends (or distributions of net profit for Limited Liability Companies) are payable annually, semi-annually or quarterly. In practice, profits are often repatriated through a number of techniques such as: transfer pricing mechanisms, service charges, royalties and interest payments. This is, however, coming under increasing official scrutiny.

Main forms of legal presence in Russia

- Representative office – (vaste inrichting)
- Limited liability company (OOO) – “BV”
- Closed Joint Stock Company (ZAO) – “BV”
- Open Joint Stock Company (OAO) – “NV”

Contact LIGHTHOUSE

	Director	Jeroen Ketting	jeroen@thelighthousegroup.ru
	Client Relations and Information	Birgit von Oehsen	birgit@thelighthousegroup.ru
	Manager Haarlem office (The Netherlands)	Jim Jansen	jim@thelighthousegroup.nl
	Manager Obninsk office (Kaluga Oblast)	Denis Kamensky	denis@thelighthousegroup.ru
	Finance & administration	Elena Kabko	elena@thelighthousegroup.ru
Tel./Fax	+7-495-9800977 / +7-495-5029286		
Website	<u>www.thelighthousegroup.ru</u>		
Address	Mytnaya Ulitsa 3, office 41, Moscow, Russia, 119049		