

# SKOLKOVO RESEARCH

## EMERGING RUSSIAN MULTINATIONALS: ACHIEVEMENTS AND CHALLENGES

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**SKOLKOVO**  
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# EXECUTIVE SUMMARY

The second annual survey of Russian multinational enterprises by the Moscow School of Management SKOLKOVO reveals a continuing global expansion of Russian firms. This study provides a starting point to evaluate future change to that trend from the current economic downturn.

Russia's top 25 multinationals – ranked by foreign assets – had, at the end of 2007, US\$90bn assets abroad and about US\$220bn in foreign sales (including exports), and employed nearly 140,000 persons in other countries. Foreign assets have increased four times since 2004, and employment abroad has tripled.

Russian multinationals are comparable to their counterparts in other BRIC countries by their foreign assets and growth rates. They lag way behind the world's biggest multinationals – those from developed countries – but they grow much faster.

While the foreign assets of Russia's global players are still concentrated in Europe ( 52%), the move toward North America, Africa and Australasia is becoming more significant.

Reflecting the country's resource endowments, the biggest Russian multinationals are in extractive industries. Three oil/gas firms – Lukoil, Gazprom, TNK-BP, – and nine metals and mining firms, led by Norilsk Nickel, together account for 80% of the total foreign assets of the top 25. However, the dominance of oil/gas conglomerates in the transnationalization process is clearly decreasing: in 2004, they accounted for as much as 63% of aggregate foreign assets, compared to 44% in 2007. New multinationals are emerging in industries as diverse as food production, software development, engineering and gaming.

The current financial crisis and the probability of a global economic downturn have already adversely affected the internationalization of Russian businesses. However, most large multinationals have confirmed their intention to move on with large investment projects abroad.

The possible developments can be summarized in three scenarios. Under a worst-case scenario, many Russian multinationals could be forced to sell part of their overseas units to pay their creditors. In an optimistic scenario of liquidity becoming readily available again soon to large Russian groups, they could benefit from low asset prices abroad. The third scenario, possibly the most realistic one, involves a period of cost-cutting and regrouping, followed by renewed expansion.

*The SKOLKOVO ranking is part of a global effort to rank multinationals from fast-growth economies, coordinated by the Vale Columbia Center on Sustainable International Investment at Columbia University, in New York.*

# THE TOP 25 RUSSIAN MULTINATIONALS: OVERALL VIEW

New multinational corporations from emerging markets have been expanding aggressively lately, drawing unprecedented attention from the business community and the media. Like their Japanese and Korean predecessors in the 1980s and 1990s, companies from Brazil, Russia, India, China, Mexico etc. have come to be seen as the rising stars by some and as a threat by others. In particular, in the space of a few years, Russian companies have propelled the country to the rank of the fastest-growing source of international direct investment. This report provides some much-needed systematic primary information of the protagonists of that process.

Collectively, the 25 Russian companies with the largest foreign assets at the end of 2007 own \$90 billion worth of assets outside of Russia. Table 1 display companies ranked by this variable, as well as the place of each company in our previous ranking, compiled based on data as of the end of 2006 and published in 2007.

The expansion of Russian multinationals is continuing very rapidly: in 3 years since 2004, their aggregate foreign assets grew four times, to \$90bn; their foreign sales (including exports) increased 2.5 times, to nearly \$220bn; and foreign employment tripled to 140,000 people (see Appendix A for details). The annual growth rates of the aggregated foreign assets have consistently exceeded 50%.

Most of the investment from Russia is being made by private companies: only four out of the top 25 companies are majority-owned by the state, and only one of them is wholly state-owned, as are, for example, many Chinese multinationals. These four state-controlled firms – the energy conglomerate Gazprom (#2), the shipping corporation Sovcomflot (#6), the power producer and trader InterRAO (#16), and the diamond mining company Alrosa (#22) – account for about 30% of the aggregate foreign assets of the top 25.

In most cases, international expansion does not impede investment or employment at home: the Top 25's domestic assets have more than doubled from 2004 to 2007, and their domestic employment grew by more than 20%.

Seventeen of the Top 25 are headquartered in Moscow, which is the norm for large national corporations in Russia, while others keep their head office close to their largest manufacturing site or a key port.

**Table 1. SKOLKOVO ranking of Russian multinationals in terms of foreign assets, 2007 (Millions of US\$)**

Rank	Prev. Rank	Name	Foreign assets
1	1 →	Lukoil	20805
2	2 →	Gazprom	17236
3	6 ↑	Norilsk Nickel	12843
4	11 ↑↑	EvrAZ	6221
5	3 ↓	Severstal	5130
6	5 ↓	Sovcomflot	4874
7	4 ↓	Rusal	4533
8	7 ↓	MTS	3812
9	8 ↑	VimpelCom	3572
10	14 ↑	Novolipetsk Steel	1594
11	13 ↑	PriSCO	1208
12	10 ↓	TNK-BP	1150
13	12 ↓	FESCO	1055
14	NEW	IMH /OAO Koks	978
15	17 ↑	Eurochem	901
16	15 ↓	InterRAO	799
17	16 ↓	TMK	606
18	NEW	Mirax	470
19	18 ↓	GAZ	384
20	21 ↑	ChTPZ	262
21	23 ↑	Acron	261
22	20 ↓	Alrosa	231
23	NEW	Sitronics	226
24	19 ↓	OMZ	207
25	NEW	Ritzio Entertainment	200
<b>TOTAL</b>			<b>89 558</b>

Source: SKOLKOVO ranking of Russian multinationals.

## TRANSNATIONALITY MEASURES ARE UP

The aggregate Transnationality Index of the Top 25 has risen from 28,5% to 35%; this relatively slow growth rate reflects the fact that domestic operations have also grown rapidly. Historical transnationality indices of the top 25 multinationals for 2004-2007 are shown in Table 2.

The Transnationality Index is a composite ratio used by the United Nations Conference on Trade and Development (UNCTAD) to assess multinationals. It is calculated by averaging the relative shares of foreign assets, foreign employees and foreign sales as a percentage of their respective totals. Evidently, the Transnationality Index shows a rather different picture compared to the ranking by foreign assets. For instance, Gazprom, a leader in the ranking (Table 1), only has about 23% of its business abroad, as measured by the Index.

While the internationalization of management lags somewhat behind that of assets and sales, it also shows a clear, if uneven, trend. The SKOLKOVO survey and desk research found that the top 25 Russian multinationals have an average of 28% foreigners on their boards of directors. Among executives (first level from the CEO), the share is only 10%. One of the reasons is probably that keeping highly qualified foreign managers in Moscow on a permanent basis is a luxury: according to Mercer's 2008 Cost of Living survey, Moscow is the world's most expensive city for expatriates. Another reason might be the trivial language barrier: at least nine out of the top 25 cite Russian as their only official language.

The financing of Russian multinationals is also quite internationalized. Out of the 25, 11 have their shares listed on stock exchanges outside the country; another 6 are only listed in Russia. Loans from Western banks are common practice, although due to the credit crunch some of those are currently being refinanced by Russian government-controlled financial institutions.

**Table 2. Transnationality indices for the top 25 Russian multinationals**

NAME	Transnationality Index (%)			
	2007	2006	2005	2004
Lukoil	44	46	44	41
Gazprom	23	29	28	24
Norilsk Nickel	44	39	35	34
Evraz	34	23	18	15
Severstal	33	33	38	23
Sovcomflot	64	66	66	66
Rusal	39	38		34
MTS	27	23	22	18
VimpelCom	29	23	11	6
Novolipetsk Steel	26		21	22
PriSCO	60	60	57	58
TNK-BP	30	27	21	21
FESCO				
IMH /OAO Koks	36	17	15	3
Eurochem	39	34	35	26
InterRAO	66	68	72	81
TMK	16	17	16	9
Mirax				
GAZ	12	12	6	
ChTPZ	12	13	3	3
Acron	41	40	45	45
Alrosa	20	19	20	15
Sitronics	40	40	19	
OMZ	39	35	34	33
Ritzio Entertainment	34	26	18	20

Source: SKOLKOVO ranking of Russian multinationals.

**Table 3. Supplementary information on the top 25 companies**

Company name	HQ location	Industry	Main exchanges	Government control**	Official language	Foreigners on board	Expats in top management.
Lukoil	Moscow	oil/gas	RTS, MICEX, LSE	-	Russian	18%	0%
Gazprom	Moscow	oil/gas	RTS, MICEX, LSE	50,002%	Rus/Eng	9%	0%
Norilsk Nickel	Moscow	metals/mining	RTS, MICEX, LSE	-		33%	0%
Evrax	Moscow	metals/mining	LSE	-		40%	23%
Severstal	Cherepovets	metals/mining	RTS, MICEX, LSE	-	Rus/Eng	60%	20%
Sovcomflot	St.Petersburg	transport	-	100%	Rus/Eng	9%	25%
Rusal	Moscow	metals/mining	-	-		50%	0%
MTS	Moscow	telecoms	NYSE, LSE, MICEX	-	Russian	33%	18%
VimpelCom	Moscow	telecoms	NYSE, RTS	-	Russian	56%	25%
Novolipetsk Steel	Lipetsk	metals/mining	RTS, MICEX, LSE	-	Russian	33%	42%
PriSCo	Nahodka	transport	RTS, MICEX	-		0%	0%
TNK-BP*	Moscow	oil/gas	-	-	Rus/Eng	80%	50%
FESCO	Vladivostok	transport	RTS	-		22%	0%
IMH /OAO Koks	Moscow	metals/mining	RTS, MICEX	-		0%	0%
Eurochem	Moscow	agrichemicals	-	-		57%	0%
InterRAO	Moscow	electricity	RTS, MICEX	58%	Russian	0%	11%
TMK	Moscow	metals/mining	RTS, MICEX, LSE	-		30%	5%
Mirax	Moscow	development	-	-		0%	0%
GAZ	Moscow	automotive	RTS	-	Russian	33%	0%
ChTPZ	Chelyabinsk	metals/mining	-	-	Russian	n.a.	n.a.
Acron	Novgorod	agrichemicals	RTS, MICEX	-		0%	0%
				47,63% fed. + 40% local			
Alrosa	Mirny	metals/mining	-			0%	0%
Sitronics	Moscow	hi-tech	RTS, LSE	-	Russian	56%	20%
OMZ	Moscow	engineering	RTS, MICEX, LSE	-	Russian	11%	0%
Ritzio Entertainment	Moscow	entertainment	-	-	Rus/Eng	33%	0%

\* TNK-BP is a joint venture between BP and a consortium of Russian Investors. Telenor of Norway owns 33.6% of VypmelCom.  
 \*\* A dash means the government doesn't have a significant stake in the company, to the best of our knowledge. It may however hold small minority stakes in many companies through state-owned financial institutions.

Source: SKOLKOVO ranking of Russian multinationals.

# GROWTH FROM LAST YEAR'S RANKING RESULTS

Overall, despite very rapid growth, the list of leaders has remained remarkably stable (see Table 1). Clearly, the companies making the most impressive investments tend to be those which already have a serious experience of transnationalization and a clear international strategy.

Compared with the previous year's list, the aggregate foreign assets of the Top 25 grew by over 50%, and the "entry ticket" jumped up to \$200 million. Aggregate foreign sales and foreign employment showed a more modest growth compared to last year's ranking - 10% and 7% respectively. The slower dynamic of foreign sales is partly due to the fact that economic growth in the last few years has been considerably higher in Russia than in most major target markets.

Several of the companies that were featured on the previous year's list are absent because of various acquisition and restructuring activities. Golden Telecom was bought up by VimpelCom (#9), a leading telecom operator. Novoship, one of Russia's leading shipping operators, was merged into Sovcomflot (#6). AFK Sistema, a group which was among the leaders as of 2006 and has somewhat rearranged its assets since, was considered this time through its separate subsidiaries rather than the parent holding as a whole; two of its daughter companies, another leading telecom operator MTS (#8) and the microelectronics supplier Sitronics (#23), made it to the top 25, and more might grow to make it later. Finally, RAO UES, the former state monopoly in power generation in distribution, was broken down into several competing companies in a planned government-led industry reform, and its international assets were inherited by one of them, InterRAO (#16).

Aside from the aforementioned new names, there are also three real newcomers on the list. The Industrial Metallurgical Holding "Koks" was propelled to #14 by the acquisition of Slovenian Steel Group in a privatization tender. The real estate developer Mirax Group (#18) and the gaming group Ritzio Entertainment (#25) entered the ranking mainly through organic growth (see profiles of companies for details).

# IT'S NOT JUST ABOUT THE OIL GIANTS

In absolute dollar terms, a handful of companies account for most of the international direct investment from Russia. The three-firm concentration ratio for the foreign assets of the top 25 companies is at 57%, and has been quite stable for the last three years. Even in the top 25 group, designed to include only the largest investors, the bottom seven companies together only have one tenth of Gazprom's foreign assets. The concentration is even more obvious when we take into account that some of the top 25 companies, like MTS and Sitronics or Rusal and GAZ, have the same controlling shareholders. Also, comparing the aggregate figures for the top 25 with national statistics may give an impression that, in dollar terms, Russian companies that are not on the list hardly engage in transnationalization at all.

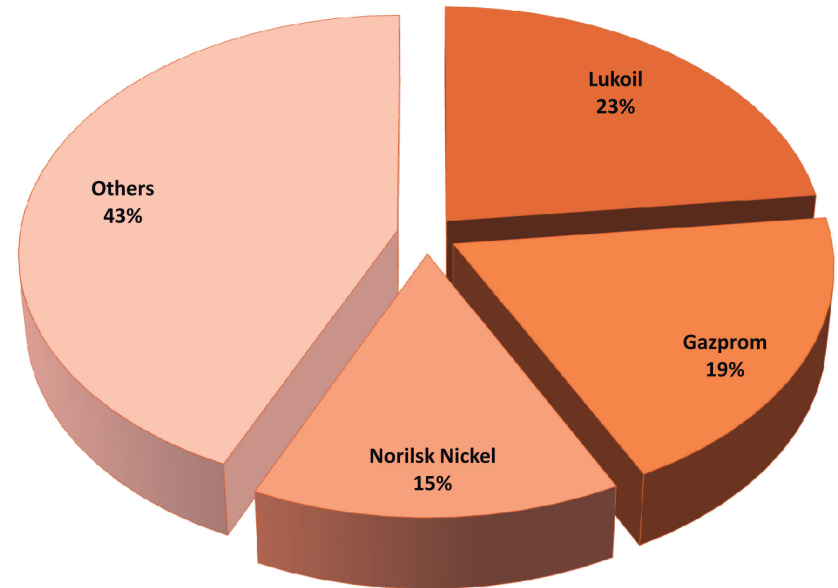
That impression, however, does not reflect the whole reality. Using foreign assets as the main ranking variable gives advantage not only to large companies (not necessarily the most transnational ones), but also to capital-intensive and relatively concentrated industries. That is reflected, for example, in the strong presence of telecommunications in the ranking: two companies from this highly concentrated industry own 8% of the Top 25's aggregate foreign assets (see Figure 2). They mainly invest in neighboring countries, seeking to extend their customer base to markets that are not yet highly saturated.

The two industries that account for the greatest share of foreign assets of Russian companies are, obviously, oil/gas and mining/metallurgy. 44% of the aggregate foreign assets of the Top 25 belong to three oil & gas companies and 36% to nine metal & mining firms. The main factor contributing to their leading role in the international expansion, of course, is that these companies are able to use the natural competitive advantages from Russia's large resource base; but there is also the simple fact that these businesses are extremely capital intensive. They expand both upstream and downstream, seeking to vertically integrate their operations. The dominance of oil and gas conglomerates in the transnationalization process, however, is clearly decreasing: in 2004, they accounted for as much as 63% of aggregate foreign assets of the Top 25 compared to 44% in 2007 (see Figure 2).

As the trend unfolds, more industries are getting involved in the process of transnationalization. This is evident from the latest SKOLKOVO ranking, which features a hi-tech equipment manufacturer (Sitronics, #23), a real estate developer (Mirax Group, #18), an automotive company (GAZ Group, #19) and even a gaming company (Ritzio Entertainment, #25). Many more industries or niches are either not big enough or not capital-intensive enough to be reflected in the ranking, but, nevertheless, the most active companies in these industries enter foreign markets and invest abroad. These industries include:

- agricultural engineering (KTZ, Rostselmash, etc.)
- cement production (Bazel, Eurocement etc.)
- consumer cosmetics (Kalina, Faberlic, etc)

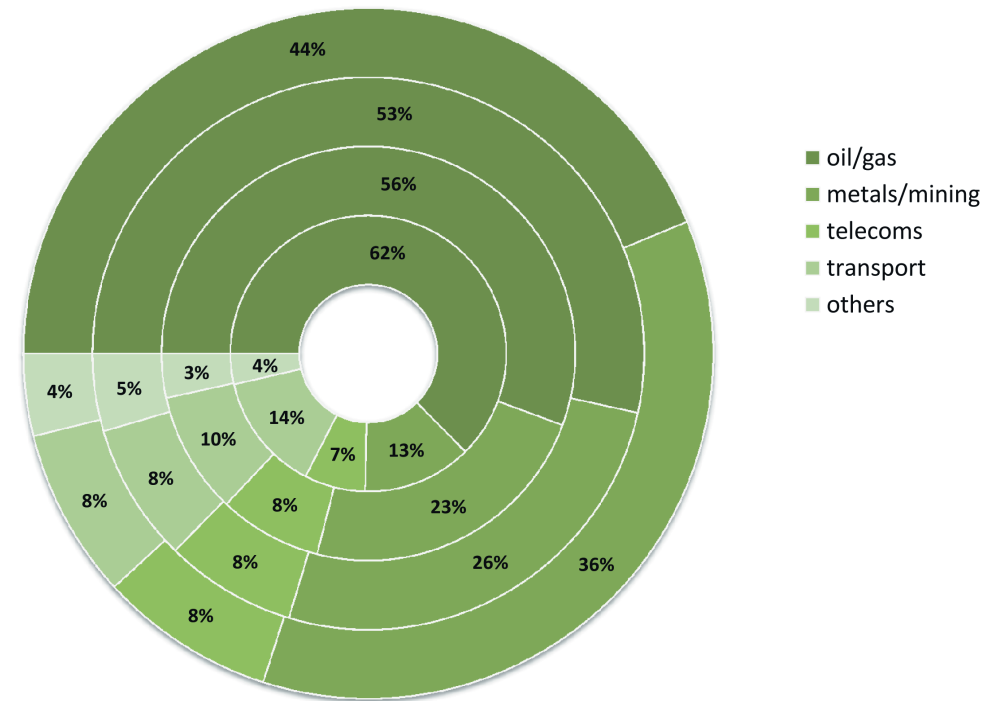
**Figure 1. The three leading companies own over half of the top 25's aggregate foreign assets**



- consumer food products (Wimm-Bill-Dann, Sibirsky Bereg etc.)
- hospitality (Rosinter Restaurants, Heliopark etc.)
- media (Kommersant, Expert Group etc.)
- security software development (Kaspersky Labs)
- specialized retail (Eldorado, Euroset, etc.)
- and many more.

Banks and other financial companies were not included in the ranking for methodological reasons, but a few of them are quite actively expanding their business abroad. Both Sberbank and VTB, the country's largest financial institutions (both are state-controlled public corporations), consider international expansion as a key part of their strategy.

**Figure 2. Foreign assets of the top 25 Russian multinationals by industry, 2004-2007**



Source: SKOLKOVO ranking of Russian multinationals.



## THE GEOGRAPHY OF EXPANSION: EUROPE IS THE DESTINATION OF CHOICE

Europe remains by far the most important investment destination for Russian business. European Union countries alone account for nearly half of the aggregate foreign assets of the top 25 multinationals; and non-member countries such as Belarus, Turkey, Ukraine, or even small Montenegro, are also significant investment targets. Official data from Rosstat shows an even more tilted picture (see Figure 3), with as much as 84% of all direct investment from Russia going to Europe. The leading countries are the Netherlands and Belarus, with the US only in third place. Of course, statistics from Rosstat should be examined with care, because they are heavily influenced by offshoring, 'round-tripping', 'jurisdiction-seeking' and other such practices.

While Europe remains the destination of choice, the role of the more remote regions of the world, such as North America, Africa and Australia, is definitely increasing (see Figure 4). And while South-East Asia and Latin America have not yet received any multi-billion Russian investments, several of the leading Russian multinationals are quite resolute to penetrate those markets in the next few years.

Both SKOLKOVO data and official statistics show a decreasing role of the Commonwealth of Independent States (CIS) countries. The main reason for this tendency is that the leading Russian multinationals, having acquired more experience in international business, are less compelled to limit their expansion to familiar, culturally close locations. However, smaller companies, especially in consumer industries such as retail or fast-moving consumer goods (FMCG), still focus on fast-growing neighboring countries; and the large fossil and mineral deposits of Central Asia continue to attract attention of Russian oil and mining companies.

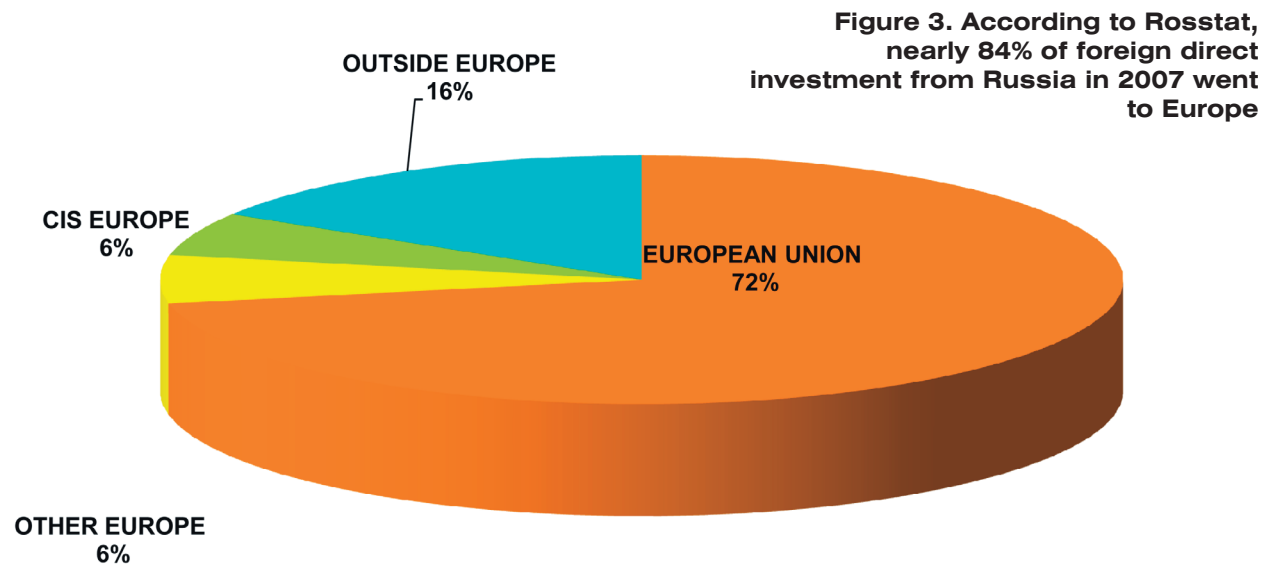
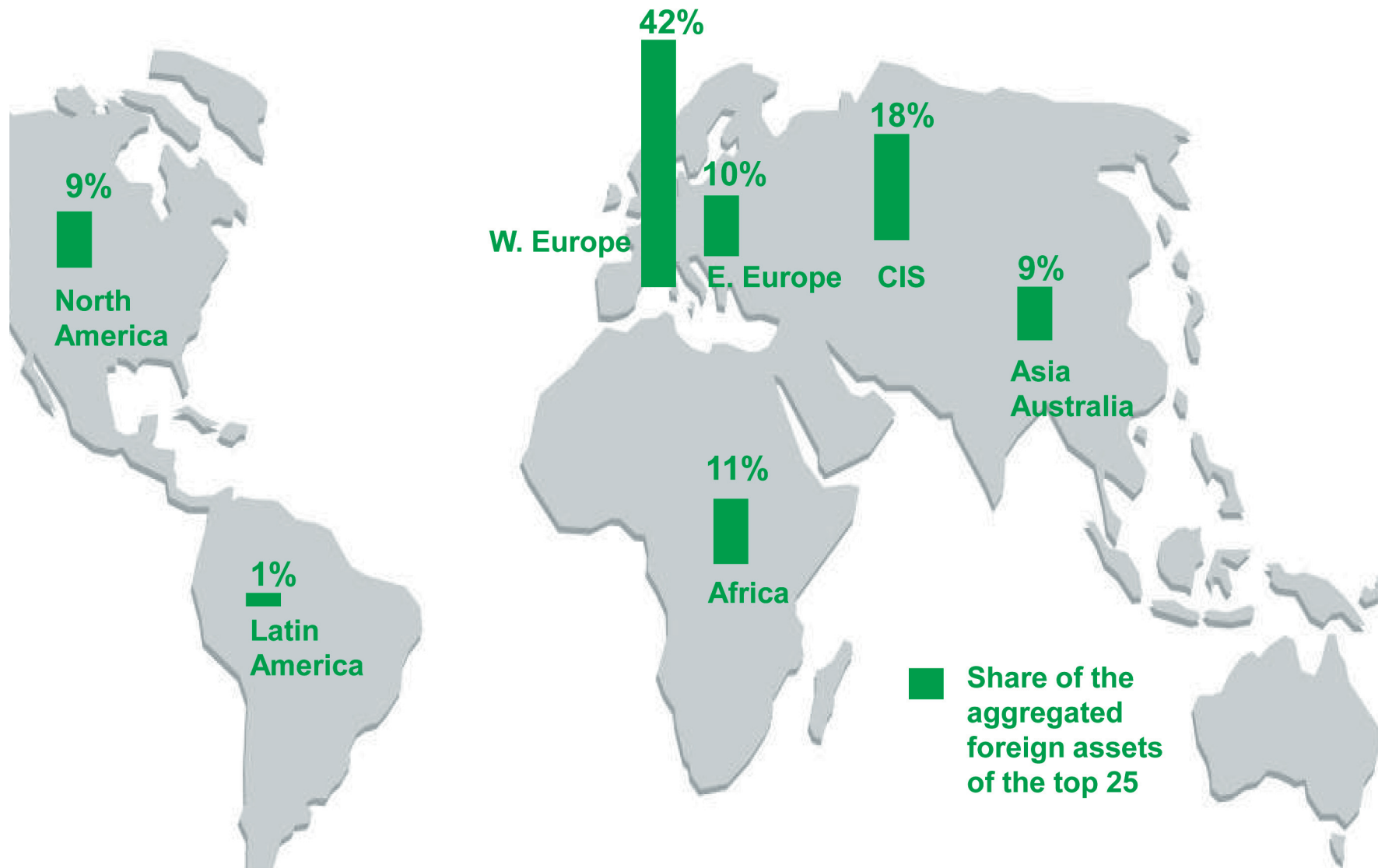


Figure 4. Geographic distribution of the foreign assets of the top 25 Russian multinationals, as of 2007



Source: SKOLKOVO. Data as of 2007.

# DIRECT INVESTMENT FROM RUSSIA: ACQUISITIONS AND GREENFIELD

Foreign direct investment statistics from the Bank of Russia, while based primarily on data collected by Rosstat, also use other sources and calculations, and therefore offer a more comprehensive picture of Russian investment abroad. Figure 5, showing the yearly amounts of outward international investment over the last decade, makes the post-2002 boom quite evident. Figure 6 shows how it unfolded during the last few years in more detail (since 2004, as covered by SKOLKOVO ranking data).

Exactly how much of those investments were due to mergers and acquisitions, as opposed to greenfield, is hard to assess. (The Bank of Russia only makes that breakdown for inward investment.)

According to fDi Markets, capital expenditure in 135 cross-border greenfield projects by Russian companies amounted to \$11 billion abroad in 2007, – slightly more than \$10.6 billion in 2006 (see Table 4).

As for mergers according to ReDeal Group, an independent group of M&A analysts, the aggregate amount of acquisitions abroad by Russian companies reached \$23.3 billion in 2007, a leap forward from \$6.8 billion in 2006. PricewaterhouseCoopers counted 103 significant international M&A deals by Russian acquirers in 2007.

To summarize, data from independent analytic firms points to the conclusion that most growth in outward direct investment in 2007 came from acquisitions, rather than greenfield investment, – which makes sense, given the pace of the expansion and the fact that its primary targets are mature markets.

**Table 4. Top 10 Russian cross-border greenfield transactions, announced, 2007(Billions of US\$)**

Date	Company name	Destination country	Sector	Value
Jun-07	<b>Gazprom</b>	Armenia	Coal, Oil and Natural Gas	1.7
Jan-07	<b>Rosneft</b>	Algeria	Coal, Oil and Natural Gas	1.3
May-07	<b>MMK</b>	Turkey	Metals	1.1
Jul-07	<b>MMK</b>	USA	Metals	1
Nov-07	<b>Gazprom</b>	Germany	Coal, Oil and Natural Gas	0.62
Jun-07	<b>Itera Group</b>	Turkmenistan	Chemicals	0.6
Jan-07	<b>Itera Group</b>	India	Coal, Oil and Natural Gas	0.57
Apr-07	<b>Gazprom</b>	Germany	Coal, Oil and Natural Gas	0.54
Jul-07	<b>Gazprom</b>	Lithuania	Coal, Oil and Natural Gas	0.4
Jan-07	<b>RAO UES</b>	Turkey	Coal, Oil and Natural Gas	0.4

Source: fDi Intelligence – Global Insight from The Financial Times Ltd.

**Table 5. Top 10 Russian cross-border acquisitions completed in 2007 (millions of euros)**

Acquiror name	Target name	Target country	Date announced	Stake acquired	Deal value
Norilsk Nickel	LionOre Mining International Ltd	Canada/Intl.	23.05.2007	100%	4495
Ruskiye Mashiny	Magna International Inc.	Canada	10.05.2007	18.189%	1127
Gazprom	Beltransgaz	Belarus	18.05.2007	12.5%	459
Lukoil	ConocoPhillips's 376 Jet filling stations	Eastern Europe	01.06.2007	100%	320
MTS	International Cell Holding Ltd	Armenia	14.09.2007	80%	310
Norilsk Nickel	Talvivaaran Kaivososakeyhtiö	Finland	20.11.2006	n.a.	299
MTS	Uzdunrobota	Uzbekistan	28.06.2007	from 74% to 100%	183
Rusal	Aluminum Smelting Co. of Nigeria	Nigeria	03.02.2006	77.5%	183
Rostselmash	Buhler Industries Inc.	Canada	13.09.2007	80%	96
GeoProMining Ltd	Sterlite Gold Ltd	Canada/Armenia	22.08.2007	100%	93

Source: Bureau van Dijk Electronic Publishing

Figure 5. Direct investment from Russia by sector, 1998-2007, by year, according to Bank of Russia

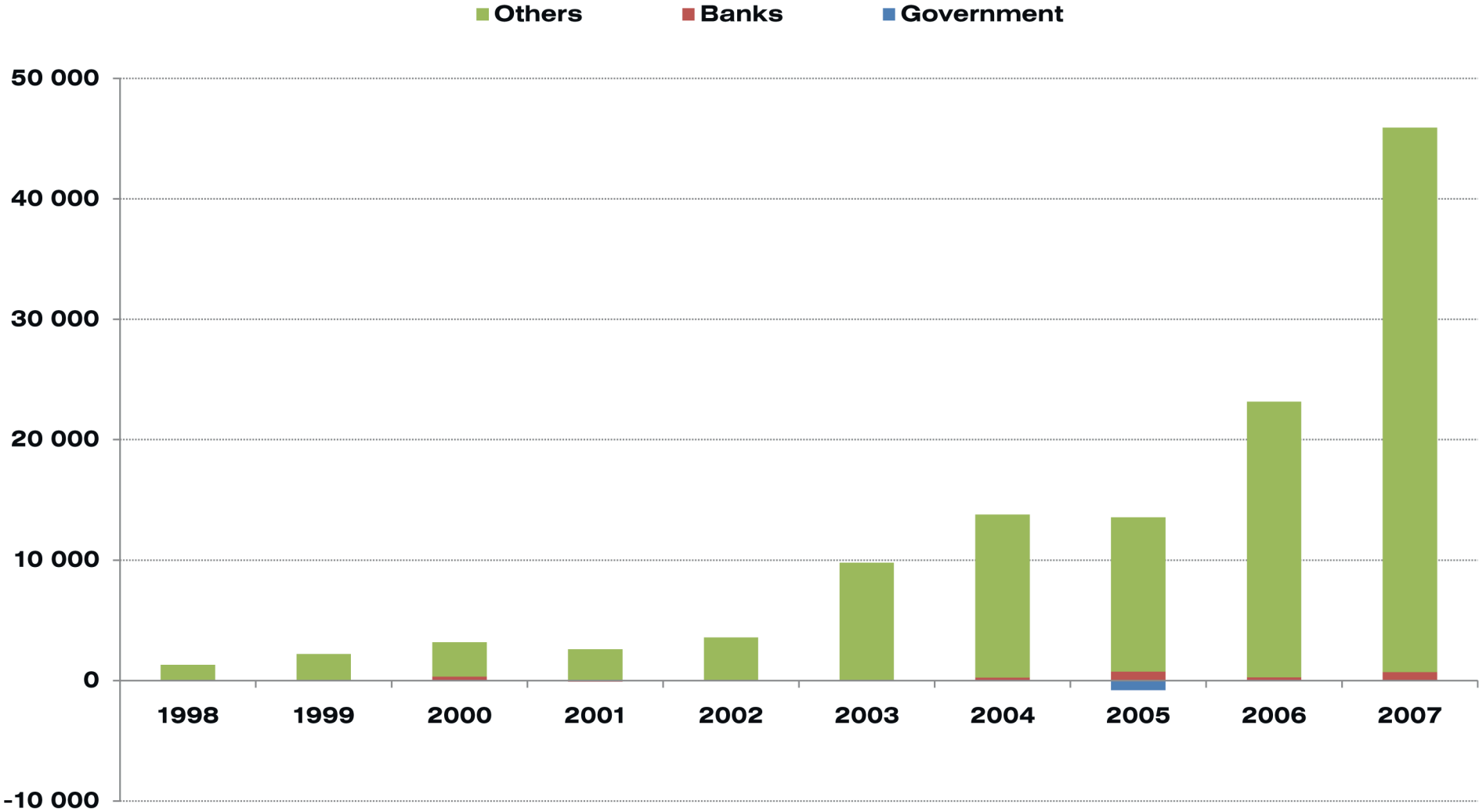
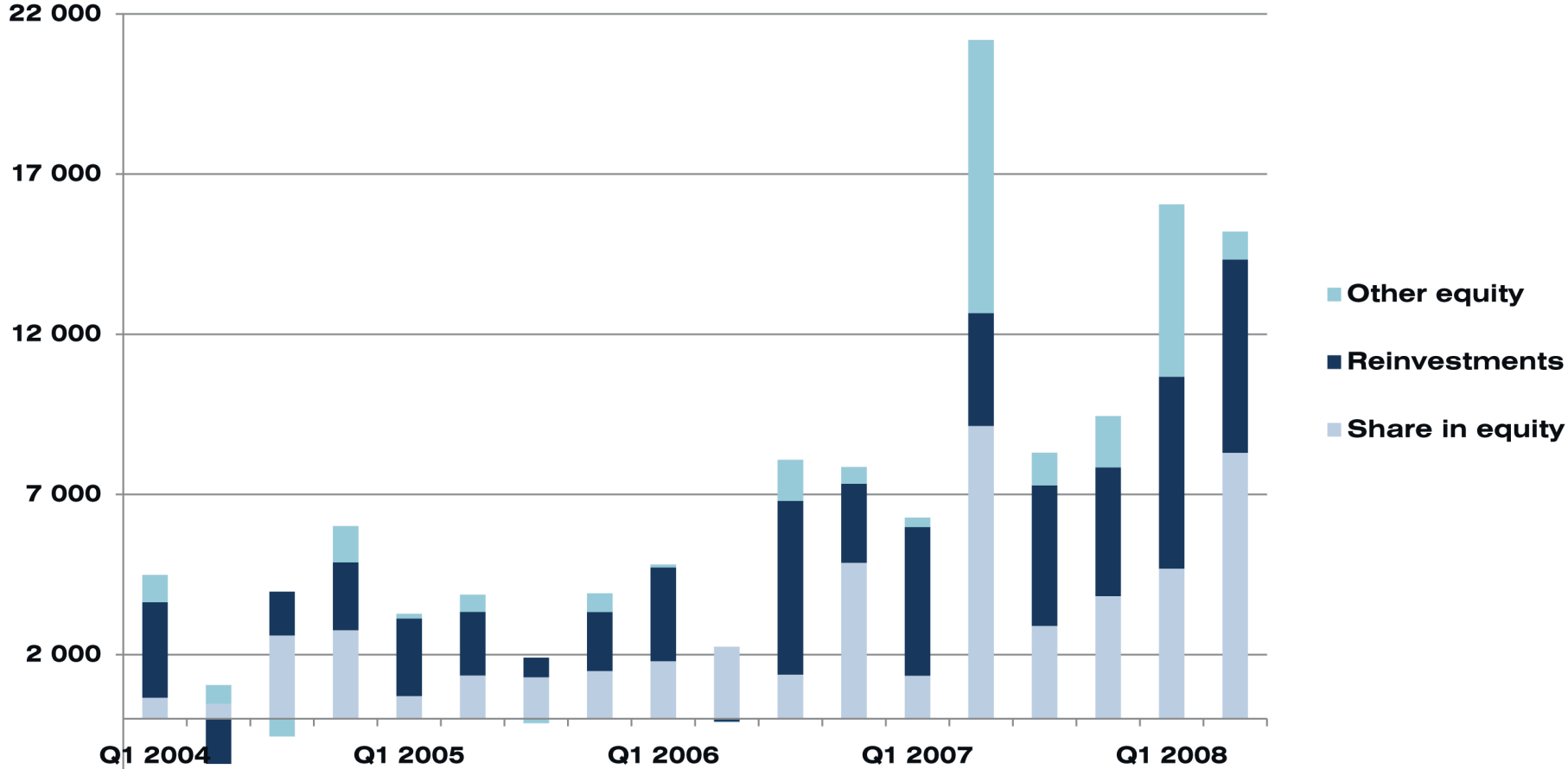


Figure 6. Direct investment from Russia by non-banking companies, 2004-1H2008, by quarter, according to Bank of Russia



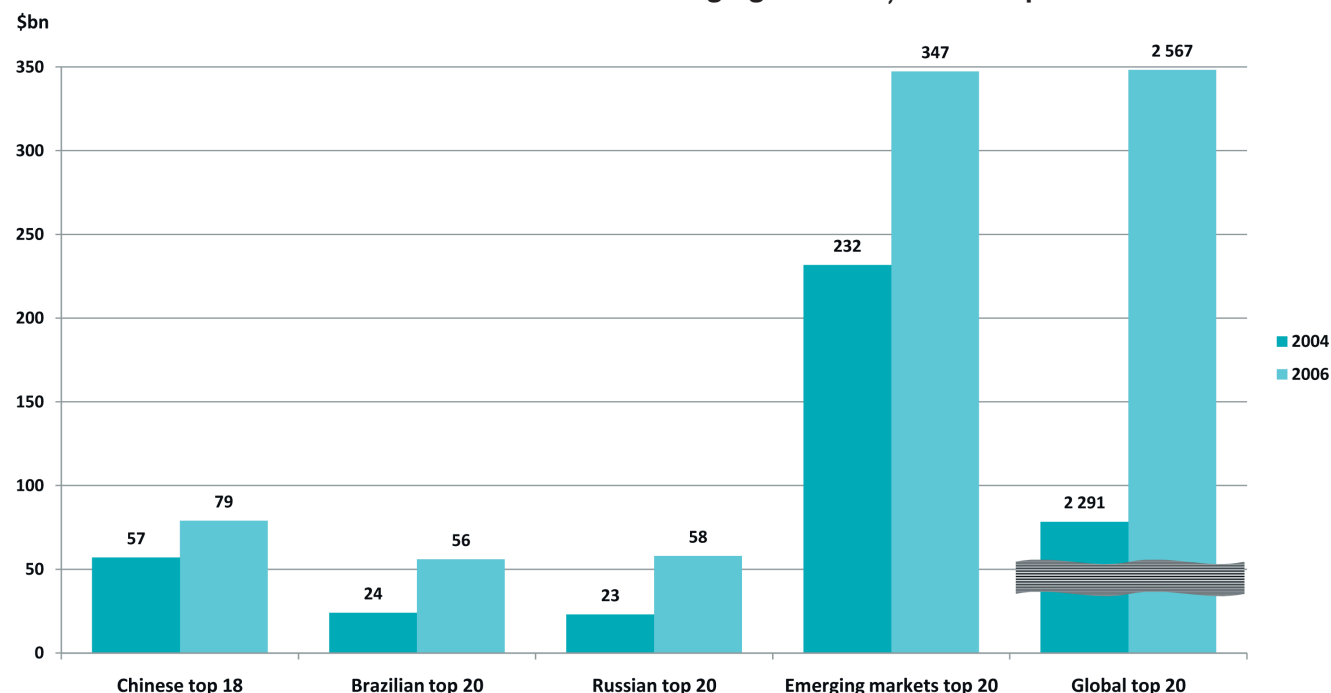
## CATCHING UP WITH DEVELOPED COUNTRIES' MULTINATIONALS – AND EVEN OUTGROWING BRAZIL AND CHINA

Russian multinationals are still very small, by practically any measure, compared with the world's biggest global companies. At the same time, they are growing and transnationalizing much faster, gradually bridging that gap.

The growth rates that characterize Russian companies' investment abroad during 2004-07 are superior to those of any other major investment-exporting country. According to UNCTAD, Russia's outward investment stock jumped by 138% between 2004 and 2007, from \$107 billion to \$255 billion. The next major investment-exporting countries after Russia by this growth indicator are, very characteristically, mainland China and Brazil, with 114% and 88% respectively. (India, Israel, Malaysia, UAE and a few other countries showed even higher growth, but from much smaller bases, so that none of them is even close to the \$100 bn. threshold. Hong Kong's outward "foreign" investment grew by 155%, but the fact that a major chunk of that actually went to mainland China makes it quite incomparable.)

The data from the rankings of multinationals tell a similar story. While the foreign assets of the world's top 20 multinationals – headquartered in developed countries – only grew by 12% in three years, those of the largest multinationals from emerging markets (not including Russian ones) grew by 50%, and those of Russian multinationals by over 150%. The aggregate foreign assets of top Brazilian multinationals increased almost at the same speed – reflecting, among other things, the commodities boom that benefited both Russian and Brazilian firms.

**Figure 7. Foreign assets of top multinationals from selected emerging markets, and of top multinationals**



# THE CHALLENGES AHEAD

While the ranking shows a steady pace of expansion of Russian multinationals from the early 2000s through 2007, it remains to be seen how resistant this trend will prove to be to a global economic downturn. In the last few weeks, there have been clear signs that the credit crisis is slowing the international expansion of Russian companies. Several deals planned for completion before the end of the year have fallen through – some because of the lack of affordable financing, and some because the falling commodity prices make the assets less attractive.

For instance, on October 15, representatives of Carlyle Group filed a lawsuit against Novolipetsk Steel for failing to close the agreed purchase of John Maneely Co. for \$3.5 billion. The filing stated that “effective October 1, 2008, NLMK’s lenders entered into a binding agreement to provide the financing necessary to enable NLMK to consummate the merger transaction, and NLMK refused to take steps -- steps entirely within its control -- to draw upon that financing” (Reuters). In a separate incident, on October 31, Italcementi has declared that it is canceling the €600 million sale of its Turkish subsidiary SET Group to Siberian Cement because the latter could not find the necessary cash in time.

At the same time, most leading multinationals seem resolute to continue their expansion:

- Lukoil (#1 in our ranking) has reaffirmed its willingness to conclude purchases of refineries in Sicily and gas stations in Turkey, for a total of \$1.9bn;
- Gazprom (#2) has signed memorandums to enter new markets in Africa and Latin America;
- Polyus Gold (a spinoff from Norilsk Nickel, #3) is buying KazakhGold for an estimated \$373 million;
- Severstal (#5) has, on November 7, completed the offer to acquire PBS Coals for \$1.3 billion;
- Rusal (#7) has signed agreements to build large plants in Vietnam and Lybia, and has confirmed plans to expand its facilities in Nigeria and Armenia;
- Altimo, the largest shareholder of VimpelCom (#9), is intending to compete for the soon-to-be-privatized Nigerian Telecommunications;
- Novolipetsk Steel (#10) has completed the acquisition of American hot-rolled steel producer Beta Steel for \$350 million, \$50 million less than originally agreed;
- InterRAO (#16) has declared that expansion into Latin America and Southeast Asia will be among its top priorities.

Whether these plans are going to be realized will depend primarily on macroeconomic factors – such as the situation in the credit markets and the depth of the recession in the real sector, both domestically and in the main target markets, – but also on how well the companies adapt.



# POSSIBLE SCENARIOS OF FUTURE DEVELOPMENT

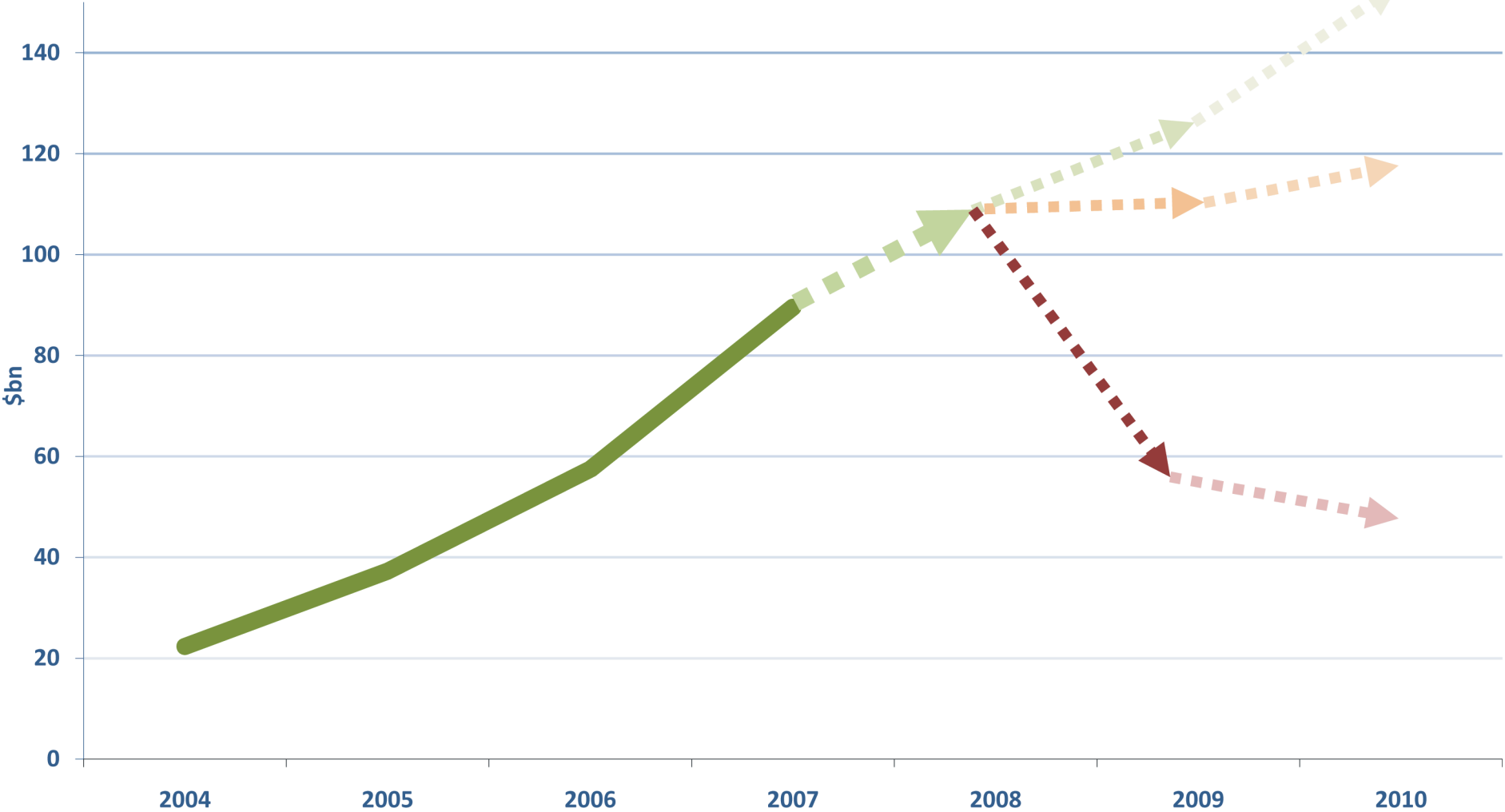
The possible developments can be summarized in three scenarios.

**Scenario 1** assumes that the government of Russia and its Central Bank use their reserve funds to ensure access to reasonably inexpensive credit to Russian companies; economic growth continues in 2009 in emerging markets, and recession in Europe does not turn into a depression; commodity prices return to 2006-07 levels. In that case, most Russian multinationals will probably get through the crisis and start buying assets abroad at bargain prices as soon as 2009. Under that scenario, there are good chances that they will be able to resume their 50%+ growth rates of foreign assets by 2010.

**Scenario 2** is pessimistic but, unfortunately, not entirely impossible. If state institutions run out of cash before the financial system resumes its normal functioning, and the prices of their products continue to go down, many Russian multinationals will find themselves unable to pay back their creditors. They may be forced to sell a significant part of their foreign assets, and in some cases the companies themselves may change hands. A few companies have already faced such situations. Euroset, a mobile phone retailer, was forced last year to stop its international expansion, divesting operations in the Baltic states; and after the credit crunch has hit Russia, the company's founders ended up selling it to a consortium consisting of a media holding and a telecom operator. Amtel, a tire producer with operations in Russia and the Netherlands, had to shut down its plants repeatedly during 2008 for lack of working capital, and may have to sell its assets piecemeal if it is not bought out by a competitor.

**Scenario 3** currently seems the most realistic one. It assumes that most Russian multinationals will find ways to refinance, but that cash will continue to be tight, and commodity prices low, during 2009. Therefore, most companies will have to focus on cutting costs and on building efficient international management, rather than on buying or building new facilities. Control over a few of the companies will be transferred to investors with better access to liquidity, but overall there will be no large-scale change of ownership or nationalization of the multinationals. After a period of belt tightening, international growth is likely to resume.

Figure 8. Growth of the aggregate foreign assets of the top 25 Russian multinationals and possible future scenarios.



Source: SKOLKOVO ranking of Russian multinationals.

## APPENDICES

### Appendix A. Top 25 Russian multinationals: historical assets, employment and sales, 2004-07

#### ASSETS

All asset figures are in millions of US\$

NAME	Foreign assets 2007	FA 2006	F.A. 2005	F.A. 2004	Total assets 2007	TA 2006	T.A. 2005	T.A. 2004
Lukoil	20805	18921	14361	10579	59632	48237	40345	29761
Gazprom	17236	10 572	5 445	2 951	276485	204228	166888	115524
Norilsk Nickel	12843	3855	1600	1413	35696	16279	14730	13632
Evraz	6221	1322	778	0	16380	8522	6754	4253
Severstal	5130	4538	4161	666	16717	14714	11812	6584
Sovcomflot	4874	2530	1845	1762	5300	2601	1908	1820
Rusal	4533	4138	1453	743	15631	14100	7261	6544
MTS	3812	2316	2015	994	10967	8574	7546	5581
VimpelCom	3572	2103	982	602	10569	8437	6307	4780
Novolipetsk Steel	1594	n.a.	159	0	13076	8717	6211	5166
PriSCo	1208	1055	976	657	1252	1093	1012	697
TNK-BP	1150	1212	904	438	29128	23600	21624	18244
FESCO	1055	1074	718	675	2331	1685	832	753
IMH /OAO Koks	978	7	0	0	2901	1391	638	449
Eurochem	901	456	407	0	2646	1850	1547	1507
InterRAO	799	670	281	261	1188	983	681	351
TMK	606	490	392	0	4676	3548	2453	2494
Mirax	470	n.a.	n.a.	0	n.a.	n.a.	n.a.	n.a.
GAZ	384	366	0	-	2969	2162	1807	-
ChTPZ	262	244	0	0	2708	1978	1611	1111
Acron	261	200	172	119	1692	1073	778	578
Alrosa	231	294	158	31	9274	7556	6058	5414
Sitronics	226	224	47	31	1887	1647	566	301
OMZ	207	356	318	347	398	913	832	901
Ritzio Entertainment	200	138	63	47	397	402	357	269

## EMPLOYMENT

All employment figures are in thousands

NAME	Foreign employment	F.E.			Total employment 2007	T.E.	T.E.	T.E.
	2007	F.E.2006	2005	2004		2006	2005	2004
Lukoil	22	22	19	14	150	149	145	131
Gazprom	9	5	5	5	445	432	397	333
Norilsk Nickel	4	1,9	1,8	1,8	88	84	96	101
Evraz	13	4,4	1,7	0,0	127	110	110	107
Severstal	11	8	8	2	96	100	58	51
Sovcomflot	0,2	0,2	0,2	0,2	5,2	4	3	4
Rusal	15	11	8,5	5	100	100	n.a.	63
MTS	5,3	3,9	3,4	3,4	24,7	24,1	27,7	22,3
VimpelCom	8,6	7,6	1,4	0,4	23,2	21,3	13,3	10,9
Novolipetsk Steel	2,8	2,8	0,4	0	60	71	53	53
PriSCo	0	0	0	0	1	1	1	1
TNK-BP	5,5	5	1	1	63	65	91	96
FESCO	0,6	0,5	0,5	0,0	3,2	3,8	4,1	4
IMH /OAO Koks	3,4	0	0	0	23	20	14	13
Eurochem	1,0	1,2	1,2	1,0	24	26	30	31
InterRAO	14,0	16,0	16,7	4,3	16	16	17	4
TMK	3,1	2,8	0,1	0	48	49	50	50
Mirax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
GAZ	0,9	0,9	0	-	115	110	99	-
ChTPZ	1,7	1,8	0	0	25	25	24	10
Acron	4	4	4	4	12	13	13	13
Alosa	0	0	0	0	35	36	35	49
Sitronics	5,1	4,8	n.a.	n.a.	11	10	n.a.	n.a.
OMZ	1,9	2,0	1,9	2,0	11,4	17	18	22
Ritzio Entertainment	6,9	5,3	3,3	1,5	19	17	14	6

## SALES

All sales figures are in millions of US\$

NAME	Foreign sales 2007	F.S. 2006	F.S. 2005	F.S. 2004	Total sales 2007	T.S. 2006	T.S. 2005	T.S. 2004
Lukoil	68577	56706	46899	26428	81891	67684	55774	33845
Gazprom	58415	66909	42151	24563	97302	82774	53213	36422
Norilsk Nickel	14582	10569	6520	5968	15909	11550	7169	6591
Evrax	6856	4075	2603	2645	12808	8292	6508	5933
Severstal	8501	7536	6667	3594	15245	12449	10452	6664
Sovcomflot	1200	489	391	379	1243	511	412	393
Rusal	10500	9572	5520	4412	14300	12900	6650	5436
MTS	2071	1717	1322	859	8252	6384	5011	3887
VimpelCom	1081	468	178	45	7171	4868	3211	2113
Novolipetsk Steel	4816	3572	2606	2911	7719	6045	4375	4460
PriSCo	137	150	130	120	164	177	175	150
TNK-BP	29906	24092	17722	10018	38665	35512	30025	17097
FESCO	n.a.	n.a.	n.a.	n.a.	872	577	541	450
IMH /OAO Koks	1142	302	323	43	1888	604	732	541
Eurochem	2373	1452	1415	1171	3005	1964	1890	1564
InterRAO	598	539	739	493	1472	1359	943	671
TMK	1185	1076	897	558	4179	3402	2938	1984
Mirax	55	n.a.	n.a.	n.a.	1300	500	n.a.	n.a.
GAZ	1353	885	683	-	6224	4512	3592	-
ChTPZ	693	509	187	87	3481	2632	2254	852
Acron	938	650	649	516	1266	897	792	625
Alrosa	2133	1912	1893	1258	3693	3584	3369	2807
Sitronics	1020	909	457	271	1620	1611	953	474
OMZ	419	356	314	271	863	667	602	524
Ritzio Entertainment	274	162	91	64	1598	1158	697	324

## Appendix B. 25 leading multinationals: corporate profiles

### #1 Lukoil

<http://www.lukoil.com/>

Lukoil is one of the world's largest private oil companies in terms of deposits and production, with sales upwards of \$80 billion. Started in the 1990s as an investment vehicle for buying up stakes in privatized oil fields in the former Soviet Union, it has quickly turned into a large vertically integrated oil & gas company. The largest shareholder, with approximately 20%, is Lukoil's President Vagit Alekperov. Most of the Company's exploration and production activity is located in Russia, and its main resource base is in Western Siberia.

One of the pioneers of transnationalization among Russian companies, Lukoil is still the leader of that trend. The company has issued American Depositary Receipts as early as in 1996, and has acquired a large network of stations in Eastern U.S. (Getty Petroleum) in 2000. The group now owns modern refineries, gas processing and petrochemical plants located in Russia, Eastern Europe and CIS countries. Most of its output is sold on the international market. At the beginning of 2008 the Company's marketing network encompassed 24 countries.

### #2 Gazprom

<http://www.gazprom.com/>

Gazprom is a large energy conglomerate built around the world's largest vertically integrated natural gas company. The company initially inherited the assets of the Soviet Ministry of the Natural Gas Industry; the state regained full control of the company in early 2000s and now owns a 50.002 per cent controlling stake in Gazprom. Aside from the natural gas business itself, the group also controls one of Russia's biggest oil producers (Gazprom Neft, formerly Sibneft), a petrochemical holding (Sibur), a tire manufacturer (Sibur Russian Tires), the largest chunk of the country's power production facilities (GEK), a media corporation (Gazprom Media) and more.

Gazprom's international strategy has concentrated so far on acquiring and building gas transportation and distribution assets in Europe, to capture the whole value chain in the highly lucrative export market. This process was – and remains – highly politicized, and Gazprom's expansion is largely seen as an instrument of Moscow's international policy. Therefore the company's successes and failures abroad depend not only on its market position, but also on Russia's relations with particular countries. Lately, the company has declared its intentions to enter into large-scale international projects to build gas infrastructures in South America and Northern Africa – both regions that are new to Gazprom. While the geopolitical motivations behind these memorandums are rather evident, it is yet unclear whether they also make business sense.

### #3 Norilsk Nickel

[www.nornik.ru/en](http://www.nornik.ru/en)

Norilsk Nickel is the world's leading producer of nickel and palladium, and one of the largest global producers of platinum and copper. In addition to this, the Group produces a variety of platinum group metals and other by-products. The core of the company is the mining and smelting complex in the city of Norilsk, in Northern Siberia, built by Gulag prisoners under Stalin and privatized in the 1990s after state management failed dismally to adapt to a market environment. The complex was purchased by Vladimir Potanin's holding company Interros (now owns about 30% of Norilsk Nickel), which succeeded in reviving it. Recently, a former partner of Mr. Potanin sold a blocking stake (25%) to Rusal (#7).

In the 2000s, the company reinvented itself as a major international player in nonferrous metals and mining. In 2003, it purchased the Stillwater Mining Company in Montana, US. In 2007, followed the acquisitions of OM Group's assets in Finland and, finally, of LionOre – an international company bought for over 6 billion dollars in the largest foreign sale to any Russian company to date. Norilsk Nickel's international assets currently include operations and projects in Finland, Australia, Botswana, South Africa and the US.

### **Evrax**

*[www.evrax.com](http://www.evrax.com)*

Evrax Group S.A. is now one of the largest vertically-integrated steel, mining and vanadium businesses in the world. The controlling shareholder is Lanebrook Ltd., which is said to be ultimately owned by Roman Abramovich and Evraz board members Alexander Abramov, Alexander Frolov and Eugene Shvidler. Evraz Group's principal assets include three of Russia's leading steel plants: Nizhny Tagil in the Urals region, West Siberian and Novokuznetsk in Siberia. After going public on the LSE in 2005, it started aggressively buying up assets all over the world. The Company now owns Palini e Bertoli in Italy, Evraz Vitkovice Steel in the Czech Republic, and Evraz Oregon Steel Mills and Claymont Steel in the United States. The recent acquisition of Ipsco's Canadian plate and pipe business further enhances the Company's operations in North America. Evraz's presence in South Africa is constituted by Highveld Steel and Vanadium Corporation. In 2008, Evraz made its first investment in the Asia Pacific region entering in a share purchase agreement to acquire up to 51% of Chinese steel manufacturer Delong Holdings.

### **Severstal**

*[www.severstal.com](http://www.severstal.com)*

Severstal is an large international vertically-integrated steel producer, comprising ore mining enterprises, steel mills and rolled product plants as well as downstream production businesses, with revenues of over \$15 billion. CEO Alexey Mordashov owns 82% of the company. Its production facilities are geographically diversified, with locations in Russia, the United States, Italy, France, Great Britain, Ukraine and elsewhere. Most European assets were acquired in one deal in 2005, when Severstal bought up Lucchini. . In 2006, the company tried to become global overnight by offering to buy Arcelor, one of the world's biggest steel producers at the time, which was under a hostile takeover threat from Mittal Steel. Severstal, which tried to play "white knight", eventually lost the battle, but not its international ambitions. A long series of purchases over the last five years has eventually made Sevestal one of the biggest steel producers in North America. Following a corporate restructuring in April 2008, the company is made up of three divisions: Severstal Russian Steel, Severstal Resources and Severstal International (includes North American operations and Lucchini).

### **Sovcomflot**

*<http://www.sovcomflot.ru>*

Sovcomflot is a Russian maritime shipping company specializing in petroleum and LNG shipping, a 100% state-owned corporation, founded in 1995 based on a Soviet state company. In 2007-08, Sovcomflot absorbed the assets of state-controlled, Novorossiysk-based Novoship and thus became the largest shipping company in Russia. The group also own Marpetrol, a Spanish-based company operating a chemtanker fleet. Most of Sovcomflot ships operate under the flag of convenience of Liberia. Sergey Frank controls the operations as CEO since October of 2004.

## **Rusal**

*www.rusal.com*

United Company RUSAL, one of the world's top 3 producers of aluminium, was established in March 2007 following the merger of assets of three companies: Russian-based producers Rusal and Sual, and the alumina assets of Glencore (Switzerland). Rusal's assets include bauxite and nepheline ore mines, alumina refineries, aluminium smelters, casthouse business for alloys production, aluminium foil mills and production of aluminium packaging materials as well as power-generating assets. Spread across 19 countries in 5 continents, the operations and offices of the United Company RUSAL employ 100,000 people. The company invests heavily in mining and production facilities in risky sociopolitical environments, such as Guinea, Guyana, Jamaica, Nigeria and so on. It is controlled by Basel, the holding company of Oleg Deripaska.

## **MTS**

*www.mtsgsm.com*

Mobile TeleSystems is one of the top 3 mobile phone operators in Russia and the CIS. It has been listed on the New York Stock Exchange since July 2000. MTS is 52.8% majority-owned by Sistema, the largest private sector consumer services company in Russia and the CIS. In 2007, MTS' revenues grew 29% to \$8.2 billion. According to Informa Telecoms & Media's World Cellular Information Service, MTS ranks as the 8th largest operator in the world by proportionate subscriptions at the end of 2007. MTS services over 90 million subscribers in Russia, Ukraine, Uzbekistan, Turkmenistan, Armenia and Belarus. While MTS has so far concentrated on CIS markets, its parent company has recently acquired licenses in India, and is eyeing China and Bangladesh; these operations might eventually be integrated into MTS.

## **VimpelCom**

*www.vimpelcom.com*

The VimpelCom Group consists of telecommunications operators providing voice and data services through a range of wireless, fixed and broadband technologies. The Group includes companies operating in Russia, Kazakhstan, Ukraine, Uzbekistan, Tajikistan, Georgia and Armenia, in territories with a total population of about 340 million. The Group companies provide services under the "Beeline" brand. VimpelCom was the first Russian company to list its shares on the New York Stock Exchange ("NYSE"). Alfa Group, a Russian holding, owns 37% of VimpelCom, and the Scandinavian Telenor another 33.6%.

The VimpelCom Group's license portfolio covers a territory with a population of about 340 million. The Group is currently expanding its operations into Vietnam (involving a 40 percent stake worth \$267 million with Vietnam state run Global Telecommunications Corporation (GTEL) with the expectation to invest \$1.8 billion over the next five years) and Cambodia, where it is to purchase Sotelco, a local operator.

## **Novolipetsk Steel**

*www.nlmk.ru*

Novolipetsk Steel is one of the biggest metallurgical companies in the world. It produces approximately 13% of Russia's steel. Novolipetsk Steel is the biggest producer of cold rolled mill products and polymeric coated rolled products in Russia and the leading producer of electric steel in Europe. In 2005 NLMK supplied its products to 65 countries of Europe, South and North America, Asia, Africa, Middle East. The group, controlled by chairman Vladimir Lisin, owns the Danish plant DanSteel and a 50% stake in a large joint venture with Duferco Group, involving two dozen producing and marketing companies in Europe and in the US. The company has recently expanded further into the US by acquiring Beta Steel; at the same time, plans to buy the much larger John Maneely Co.



have been canceled due to the abrupt changes in economic conditions.

### **PriSCO**

<http://www.prisco.ru/>

The Primorsk Shipping Corporation, or PRISCO, specializes in marine transportation of bulk liquid cargo. It is based in Nahodka, in the Russian Far East. The Corporation operates 19 tankers with an aggregate deadweight of 1 352,777 tons. Ice class vessels including large-capacity ones equipped for operation in freezing seas conditions make up the core of the company's fleet. The Primorsk Shipping Corporation's activities include commercial and technical management, agency services and training qualified specialists in sea transport and gas-and-oil producing industry. It has representative offices in Moscow, Vladivostok and Singapore.

### **TNK-BP**

[www.tnk-bp.com](http://www.tnk-bp.com)

TNK-BP is a leading Russian oil company and is among the top ten privately-owned oil companies in the world in terms of crude oil production. The company was formed in 2003 as a result of the merger of BP's Russian oil and gas assets and the oil and gas assets of Alfa Access Renova group (AAR, belongs a group of Russian businessmen). BP and AAR each own 50% of TNK-BP. TNK-BP is a vertically integrated oil company with a diversified upstream and downstream portfolio in Russia and Ukraine. TNK-BP operates a retail network of approximately 1,600 filling stations Russia and Ukraine working under the BP and TNK brands. The company is one of the key suppliers to the Moscow retail market and is a market leader in Ukraine. TNK-BP has been recently in turmoil due to a conflict on strategy between BP and AAR, but by now the tension seems to have decreased, and the partners are close to appointing a new management team. One of the points of disagreement was that AAR wanted the company to expand more aggressively abroad.

### **FESCO**

[www.fesco.ru/en/](http://www.fesco.ru/en/)

Fesco is a diversified transportation group, consisting of one of Russia's largest shipping operators (Far Eastern Shipping Company); ESF Euroservices, a smaller, recently acquired shipping firm on the Baltic; the National Container Company, which manages several large cargo terminals; the Vladivostok trade seaport; Transgarant, Russia's third largest railway container operator; and several other transportation-related firms. The group's overall strategy is to offer a complete set of intermodal transportation services throughout Russia, with a special focus on the Asia-Europe transit market. While Fesco serves many foreign clients, its investment has been mostly within Russia.

### **Koks**

<http://www.metholding.ru/en/>

Koks, the parent company of the group, is affiliated through a governance contract to the Industrial Metallurgical Holding Management Company. The holding comprises a number of metallurgical, coke chemical and coal-mining enterprises located in Siberia, the Ural region, and Central Russia. The biggest enterprises among these are OAO Tulachermet, one of the leaders in ferrous metallurgy, and OAO Koks itself, one of the major producers of metallurgical coke in Russia. While managing the business of the holding as a vertically integrated structure of metallurgical production, special attention has been recently devoted to the raw material constituent. In particular, coal production has become one of the priority directions for the holding. In 2007, the group, which had no previous experience in cross-border M&A, has surprised observers by acquiring the Slovenian Steel Group (Slovenska Industrija Jekla d.d.) from the Slovenian government.

## **EuroChem**

[www.eurochem.ru/](http://www.eurochem.ru/)

EuroChem is the largest manufacturer of mineral fertilizers in Russia. It ranks among top three European and top ten world leaders in the sector. EuroChem has adopted a development strategy to the year 2012 which envisages an investment of USD 3.2 billion in the development of production and the construction of new facilities in order to increase manufacturing capacities. EuroChem is the only chemical company in Russia which incorporates mining and processing enterprises as well as logistics companies and distribution network in various regions of the world. In 2002, in the wake of a crisis on the phosphate market, the company acquired Lifosa AB, a producer of phosphate mineral fertilizers located in Lithuania (now an EU member country).

## **InterRAO**

[www.interrao.ru/eng](http://www.interrao.ru/eng)

INTER RAO UES OJSC is a fast growing power supplier with a number of generation and distribution assets in Russia and abroad. The company was set up in spring 2008 as a successor to the former state monopoly's export-import subsidiary merged with a number of Russian-based gencos, transferred under its control as part of the reform of Russia's power industry. The company is a major investor and a leading exporter and importer of electric power in Russia. It owns power generation and transmission assets in a number of ex-Soviet countries.

## **TMK**

[www.tmk-group.com](http://www.tmk-group.com)

TMK is Russia's largest manufacturer and exporter of steel pipes and ranks among the global top three pipe producers. TMK GDRs and ordinary shares are traded on the London Stock Exchange, Russian Trading System and Moscow Interbank Currency Exchange. Founded in 2001, TMK has become an established market leader with production plants in Russia and Romania. TMK's Romanian assets include TMK-ARTROM pipe plant and TMK-Resita metallurgical works.

## **Mirax**

<http://eng.mirax.ru/>

Founded in 1994 by Sergei Polonsky and Artur Kirilenko as Stroymontazh, the MIRAX GROUP Corporation has grown into a diversified development corporation with projects of various size and various stages of completion in Russia, Montenegro, USA, Turkey, Cambodia, and Switzerland.

## **GAZ Group**

<http://eng.gazgroup.ru/>

GAZ Group is Russia's largest automotive manufacturer of light commercial vehicles, trucks, buses, cars, diesel engines, power-train components and road construction equipment. GAZ Group was established in 2005 as a result of restructuring the automotive assets of Basel, the holding company of Oleg Deripaska. Sales in 2007 totaled over \$6 billion. GAZ Group comprises 18 leading automotive and machine building producers in Russia and LDV Group in the UK. LDV was acquired after a period of difficulties, with a view to leverage the engineering potential of the British company in the growing markets of Eastern Europe.

## **ChTPZ**

[www.chtpz-group.ru](http://www.chtpz-group.ru)

Established in 2002, ChTPZ Group is currently one of the leading industrial groups in the Russian metallurgical sector, with \$4bn turnover and 22% share of the pipe market. The Group employs a total of 25,000 people. Products manufactured by the Group are exported to over 20 countries worldwide. ChTPZ Group's strategy is to evolve from being a pipe-producer to being integrated solution provider for the pipeline transportation industry. Within that strategic framework, in 2006, the Group purchased MSA a.s., a manufacturer of industrial valves located in the Czech Republic. The same year, Akzhal Ore Mining and Processing Mill (Kazakhstan) joined the Group's zinc division, in accordance with its strategy of vertical integration. Finally, in June 2007, in a continuation of the vertical integration effort, the Group bought Brock Metal, the leading UK supplier of zinc and aluminum die-casting alloys, from Alumasc Group plc.

## **ACRON**

[www.acron.ru](http://www.acron.ru)

Acron is a leading Russian and global mineral fertiliser producer with a diversified product portfolio. The company's products are sold in over 50 countries. In 2007, the Company sold a substantial proportion of its total fertiliser sales volume of 4.4 million tonnes in fast-growing, developing markets such as Russia and China, as well as countries in Latin America, Asia and the countries of the former USSR. In 2005, the company consolidated 50,5% in Shandong Chemical JSC Hongri Acron, Ltd, in China, and started expanding its facilities. The company is also building a sea terminal in Estonia.

## **Alrosa**

<http://eng.alrosa.ru>

ALROSA Co. Ltd. is Russia's largest diamond company engaged in the exploration, mining, manufacture and sales of diamonds and one of the world's major rough diamond producers. Alrosa produces about 20% of the world's rough diamond output and accounts for almost 100% of all rough diamonds produced in Russia. The company's shares are divided between the federal government, the regional government of Yakutia, local governments and a relatively limited free float. Alrosa operates a diamond mining facility in Angola and has representative offices in the main diamond trading centers.

## **Sitronics**

<http://sitronics.com>

SITRONICS is a leading provider of telecommunication solutions, including software, equipment and system integration, IT solutions and microelectronic solutions in Russia and the Commonwealth of Independent States (CIS) with a strong presence in Central and Eastern Europe and a growing presence in the Middle East and Africa. Sitronics has over 11,000 employees, serves over 3,500 clients, maintains offices in 32 countries and exports its products and services to more than 60 countries. The key Telecom Solutions operations are based in Prague, Czech Republic and Athens, Greece, while the company's IT Solutions and Microelectronic Solutions divisions are based in Kiev, Ukraine and Zelenograd, Russia, respectively. The company is controlled by Sistema Group, and telecommunication companies belonging to the Group are among the key customers of Sitronics.

## **OMZ**

[www.omz.ru/eng](http://www.omz.ru/eng)

OMZ is the largest heavy industry company in Russia. It specializes in engineering, production, sales and maintenance of equipment and machines for the nuclear power, oil and gas, and mining industries, and also in the production of special steels and equipment for other industries. The Company was founded Dec. 19, 1996 in Yekaterinburg, with the purchase of Uralmash, one of the largest Soviet heavy machinery plants. In 1999, Izhorskie Zavody became part of the Company. In 2003, the Czech companies Skoda Steel, Skoda JS and in 2008, CHETENG Engineering joined OMZ. Shares in OMZ are traded in Russia, as well as, through depository receipts, in London, Berlin, Munich, and New York.

## **Ritzio Entertainment**

[www.ritzio.com/en/](http://www.ritzio.com/en/)

Ritzio Entertainment Group is a leading international provider of gaming and entertainment services and is the largest gaming operator in continental Europe. Currently the Group operates over 1000 venues including casinos, gaming clubs, night clubs, bars and restaurants. While most of the company's operations are located in Europe, it has also recently entered the Latin American market. Ritzio's global workforce stands at over 25,000 employees in 15 countries: Romania, Czech Republic, Italy, Germany, Croatia, Serbia, Russia, Ukraine, Belarus, Estonia, Latvia, Lithuania, Bolivia, Peru, and Columbia. The company's international expansion is motivated in large part by the desire to diversify the risks of government regulation, especially given the decision of the Russian government to ban all gaming outside of specially designated zones after July 1, 2009.

## Appendix C. Note on the ranking methodology

The methodology used to construct the ranking of Russian multinationals is based on discussions of the Emerging Markets Global Players (EMGP) international project team, coordinated by the Vale Columbia Center for Sustainable International Investment (VCC), and on standard measures used by the United Nations Conference on Trade and Development (UNCTAD).

To be included in the ranking list, a company must be based in Russia and own physical assets in at least one other country. Financial companies, such as banks and investment funds, are not included. In case of doubt, a company is considered to be “based in Russia” if it maintains headquarters there from which primary decisions are made. A group of companies is considered as a single enterprise, except for highly diversified portfolio holdings, which are analyzed on the same footing as private equity funds (that is, on the level of each separate business). A company included in the ranking may be publicly, privately or government owned, which will not affect its position in the ranking.

The companies are ranked by foreign assets, including current and/or intangible ones. The 25 companies with the most foreign assets are included in the list and used as a sample to evaluate overall trends. Some of the biases of such sampling are discussed above. Information on the company’s assets, sales, and employment is collected for the period since 2004.

The degree of transnationalization of a company is assessed using the Transnationality Index, calculated as  $TI = (FA/TA + FS/TS + FE/TE)/3$ , where FA and TA denote foreign assets and total assets, FS and TS are foreign sales and total sales, and FE and TE – foreign employment and total employment.

Data on the companies are obtained directly from them whenever possible. Where not possible, open sources are used to calculate or estimate the necessary data points. Sources include annual reports, financial reports, company releases, academic research on firms, press articles, commercial databases, investment analysts’ reports and materials available from trade organizations and government agencies. Information gathered on a multinational is sent to the MNE for review prior to release of the list. It is the responsibility of the MNE to respond to the recheck request; a non-response is viewed as acceptance of the data.

## **Emerging Markets Global Players Project**

The SKOLKOVO 2007 Ranking of Russian Multinational Enterprises was conducted in the framework of the Emerging Markets Global Players Project, a collaborative effort coordinated by the Vale Columbia Center on Sustainable International Investment. It brings together researchers on FDI from leading institutions in emerging markets to generate annual ranking lists of emerging market MNEs. Watch [www.vcc.columbia.edu](http://www.vcc.columbia.edu) for further information or contact [vcc@law.columbia.edu](mailto:vcc@law.columbia.edu)

## **Moscow School of Management SKOLKOVO**

The Moscow School of Management SKOLKOVO is a joint project by major Russian and International business leaders. SKOLKOVO is a dynamically developing international business school with a vision based on a unique mix of three dimensions: entrepreneurial leadership, emerging markets and experiential learning.

Being realized in partnership with the government of the Russian Federation, SKOLKOVO is a part of the national priority projects programme, funded exclusively by private business. Dmitry Medvedev, the President of the Russian Federation is the Chairman of the SKOLKOVO International Advisory Board.

Since 2006 SKOLKOVO holds short term Executive Education programmes for senior executives and middle managers. Full-time MBA and Executive MBA will be open in 2009, admission for both programmes starts in autumn-2008.

For more information, see [www.skolkovo.ru](http://www.skolkovo.ru).

## **Vale Columbia Center on Sustainable International Investment**

The Vale Columbia Center on Sustainable International Investment (VCC), led by Dr. Karl P. Sauvant, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to FDI in the global economy. The VCC focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. For more information, see [www.vcc.columbia.edu](http://www.vcc.columbia.edu).

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