



Russian multinationals bullish on foreign markets

Release of the SKOLKOVO – CPII 2007 ranking of Russian multinational enterprises

Moscow and New York, December 10, 2007

The first-ever survey conducted by SKOLKOVO Moscow School of Management and the Columbia Program on International Investment (CPII) in New York of Russian multinational enterprises (MNEs), released today, reveals a dramatic transnationalization of Russian firms.

Its principal findings include: Russia's Top 25 MNEs – ranked by foreign assets – have US\$59bn¹ assets abroad (table 1), have nearly US\$200bn in foreign sales (including exports) and employ 130,000 persons abroad. Foreign assets, sales and employment each have more than doubled since 2004. Foreign assets are concentrated in Europe. Four oil/gas firms, led by Lukoil and Gazprom, and nine metals/mining firms, led by Severstal and Rusal, together account for 78% of the total foreign assets of the Top 25.

The Top 25 have played a key role in making Russia the third largest outward investor among emerging markets in 2006 in terms of foreign direct investment (FDI) outflows and the second largest in terms of outward FDI stock. Like their competitors from other countries, Russian firms invest abroad to acquire a portfolio of locational assets, which are increasingly important as a source of their international competitiveness.

“Russian companies started to establish foreign affiliates much later than their competitors”, notes Valery Sorokin, Director of the SKOLKOVO Research Centre. “However, the top multinationals are quickly expanding their role – with all the accompanying risks, opportunities and new requirements both for their business and economic policy.”

SKOLKOVO Moscow School of Management, an innovative business school founded by 14 major companies and private individuals, and the Columbia Program on International Investment, a joint Columbia Law School - Earth Institute venture at Columbia University, collaborated on the ranking of Russian MNEs. This exercise is part of a global effort to rank emerging market MNEs. A ranking list for Brazil was published on December 3, 2007 (see www.cpii.columbia.edu), and ranking lists from China, Hong Kong (China), and South Africa are to be released soon.

¹ The following RUB/USD exchange rates, based on XE.com Universal Currency Converter (<http://www.xe.com/ucc/>), were used throughout: 26.3255 (2006); 28.7415 (2005); 27.7696 (2004).

Table 1. SKOLKOVO-CPII ranking of the Top 25 Russian multinationals, in terms of foreign assets, 2006 (Millions of US\$)			
Rank	Name	Industry	Foreign assets
1	Lukoil	Oil/gas	18,921
2	Gazprom	Oil/gas	10,572
3	Severstal	Metals/mining	4,546
4	Rusal	Metals/mining	4,150
5	Sovcomflot	Transport	2,530
6	Norilsk Nickel	Metals/mining	2,427
7	AFK Sistema	Telecoms/retail	2,290
8	VimpelCom	Telecoms/retail	2,103
9	Novoship	Transport	1,797
10	TNK-BP	Oil/gas	1,601
11	Evraz	Metals/mining	1,322
12	FESCO	Transport	1,074
13	PriSCo	Transport	1,055
14	Novolipetsk Steel	Metals/mining	964
15	RAO UES	Electricity	514
16	TMK	Metals/mining	490
17	Eurochem	Agri-chemical	456
18	GAZ	Manufacturing	366
19	OMZ	Manufacturing	354
20	Alrosa	Metals/mining	294
21	ChTPZ (Arkley Capital)	Metals/mining	244
22	Alliance Oil	Oil/gas	211
23	Acron	Agri-chemical	200
24	Euroset	Telecoms/retail	147
25	Mechel	Metals/mining	116
TOTAL			58,744

Source: SKOLKOVO-CPII survey of Russian multinationals.

The profile of the Top 25

- The foreign assets of the **Top 25** Russian multinationals represent **38% of Russia's total outward FDI stock**.
- Russian multinationals have **yet to outgrow their foreign counterparts**:
 - Only two have over \$10bn in foreign assets, and only four employ over 10,000 people abroad (*annex table 1*).
 - Only one would make it into the top ten MNEs from developing countries.²
- Russian multinationals are **expanding at an astonishing rate**: in two years, their aggregate foreign assets grew 2.5 times, to nearly \$60bn, and their foreign sales (incl. exports) and foreign employment more than doubled to \$200bn and 130,000 people respectively (*table 2*).

² See UNCTAD, *World Investment Report 2007* (Geneva: UNCTAD, 2007). Data for 2005 are the latest available.

Variable	2004	2005	2006	% change 2006/2005
Assets				
Foreign	23	38	59	54
Total	274	366	463	26
Share of foreign in total (%)	8	10	13	
Employment				
Foreign	57	90	130	44
Total	1718	1858	2 107	13
Share of foreign in total (%)	3	5	6	
Sales (incl. exports)				
Foreign	90	143	199	39
Total	163	236	315	33
Share of foreign in total (%)	55	61	63	

Source: SKOLKOVO-CPII ranking of Russian multinationals.

- These growth rates far outpace those of the world's 25 leading multinationals (whose foreign assets showed zero growth in 2005 vs. 64% growth for Russia's Top 25), and even those of the top 25 multinationals from developing countries (only +20% in 2005)³. This means that Russian global players are **catching up with international competitors** quickly.
- In most cases, international expansion **does not impede domestic investment, growth or employment**: the Top 25's domestic assets and domestic sales have both grown by around 60% from 2004 to 2006, and their domestic employment by 20%.
- Most of the investment from Russia is being made by **private companies**. (Only five out of the Top 25 companies, accounting for about 27% of the aggregate foreign assets, are majority-owned by the state.)
- The foreign affiliates of Russia's global players are **concentrated in Europe** (now 63% of their aggregate foreign assets), as revealed by the **Regionality Index** (*annex table 2*). However, they are **moving from these well-known markets** to Asia, Africa and the Americas.
- Reflecting the country's resource endowments, Russian multinationals belong to **extractive industries**: 53% of the aggregate foreign assets of the Top 25 belong to four oil & gas companies and 25% to nine metal & mining firms (*annex figure 1*). This compares to 59% and 13%, respectively, for 2004 (for the same 25 companies).

³ See UNCTAD, op. cit. Data for 2005 are the latest available.

- **Telecom & retail** companies are also present and expanding dynamically. They now own 8% of the Top 25's aggregate foreign assets, and shipping operators own 11% (*annex figure 1*), compared to 6% and 19% in 2004.
- Seventeen of the Top 25 are **headquartered in Moscow** (*annex figure 2*).
- The Top 25 now have **630 foreign affiliates** (*annex figure 3*) in 70 countries, for an average of 25 affiliates and an average of 9 countries (*annex table 1*). Lukoil is present in 43 countries (with 182 foreign affiliates), followed by Gazprom in 32 (with 105 foreign affiliates).
- Russian **multinationals are young**: out of the Top 25, 18 established their first foreign affiliate after 1999.
- The aggregate **Transnationality Index**⁴ of the Top 25 **has risen** from 27% to 30%; this relatively slow growth rate reflects the fact that domestic operations have also grown rapidly.
- Nine of the Top 25 are also **listed on the London Stock Exchange**, and two additional ones are on the **New York Stock Exchange**; eight companies are not listed anywhere.

The whole picture

As a result of the dynamic expansion of Russian multinationals, FDI *outflows* from Russia rose from very little in the early 1990s to US\$18bn in 2006, making Russia the third largest outward investor from emerging markets that year in terms of outflows (after Hong Kong (China) and Brazil) (*annex figure 4*). Outflows are predicted to stay above US\$20bn over each of the next four years.⁵

As a result, the *stock* of outward FDI has risen from US\$20bn in 2000 to US\$157bn in 2006 (*annex figure 5*), making Russia the second largest emerging market in terms of outward FDI stock (behind Hong Kong (China)). The outward FDI stock is expected to continue to rise significantly.

A good part of Russia's outward FDI takes the form of cross-border M&As (*annex table 3*), notably in the metals & mining sector. But there are also significant greenfield investments, especially in the metals industry (*annex table 4*).

Karl P. Sauvart, Executive Director of the CPPI, points out that this is a part of a global trend: "*While there was always some FDI from emerging markets, it was a negligible trickle. This has been changing rapidly in recent years: last year, emerging market MNEs invested some \$210bn abroad – roughly five times the world total 25 years ago.*"

⁴ The Transnationality Index is a composite ratio calculated by averaging the relative shares of foreign assets, foreign employees and foreign sales as a percentage of their respective totals. See UNCTAD *op. cit.*

⁵ *World Investment Prospects to 2011: Foreign Direct Investment and the Challenge of Political Risk*, at www.cpii.columbia.edu.

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Emerging Markets Global Players Project

The SKOLKOVO-CPII 2007 Ranking of Russian Multinational Enterprises was conducted in the framework of the Emerging Markets Global Players Project, a collaborative effort led by the Columbia Program on International Investment. It brings together researchers on FDI from leading institutions in emerging markets to generate annual ranking lists of emerging market MNEs. The MNE ranking for Brazil was released on December 3, 2007 by Fundação Dom Cabral (FDC) and CPII. The next rankings will be released for China and Hong Kong (China) by Fudan University, and for South Africa by the University of Pretoria. Watch www.cpii.columbia.edu for further information or contact cpii@law.columbia.edu.

Five Diamond Conference Series

Given the importance of the international expansion of companies from the BRIC countries, SKOLKOVO Moscow School of Management, together with Columbia Program for International Investment, Fudan University, Fundação Dom Cabral, and the Indian School of Business, will organize a series of conferences to explore further that phenomenon. The first Five Diamond conference will take place in New York City on April 28-29, 2008. For more information, please contact cpii@law.columbia.edu.

SKOLKOVO Moscow School of Management

The Moscow School of Management SKOLKOVO is a joint project by 14 major companies and private individuals – Russian and international business leaders. Through sharing practical knowledge, SKOLKOVO educates managers and entrepreneurs to help them set up and run their own businesses and contribute to the development of the Russian economy. For more information, see www.skolkovo.ru.

Columbia Program for International Investment

The Columbia Program on International Investment (CPII), headed by Dr. Karl P. Sauvant, is a joint undertaking of the 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 CPII focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. For more information, see www.cpii.columbia.edu.

Annex table 1: SKOLKOVO-CPII ranking of the Top 25 Russian multinationals, key variables, 2006
(Millions of US\$ and no. of employees)

Ranking		Name	Industry	Assets		Sales		Employment		Trans-nationality Index (%)	No. of foreign affiliates	No. of host countries
Foreign assets	Trans-nationality Index			Foreign	Total	Foreign	Total	Foreign	Total			
1	4	Lukoil	Oil/gas	18,921	48,237	56,706	67,684	22,000	148,000	46	182	43
2	12	Gazprom	Oil/gas	10,572	204,228	66,909	82,774	5,470	432,000	29	105	32
3	11	Severstal	Metals/mining	4,546	18,806	7,519	12,423	8,000	99,700	31	9	5
4	5	Rusal ^a	Metals/mining	4,150	14,200	10,790	13,000	10,900	100,000	41	19	15
5	1	Sovcomflot ^{b c}	Transport	2,530	2,601	489	511	164	3,542	66	4	3
6	8	Norilsk Nickel	Metals/mining	2,427	16,279	10,569	11,550	1,600	83,600	36	13	9
7	22	AFK Sistema	Telecoms/retail	2,290	20,131	2,537	10,863	11,700	92,000	16	25	9
8	16	VimpelCom	Telecoms/retail	2,103	8,437	468	4,870	7,630	21,300	23	12	4
9	2	Novoship ^{b c}	Transport	1,797	1,999	503	561	0	4,980	60	6	5
10	13	TNK-BP	Oil/gas	1,601	23,600	24,092	35,512	4,000	70,000	27	1	1
11	17	Evraz	Metals/mining	1,322	8,522	4,075	8,292	4,400	110,000	23	9	5
12	7	FESCO ^b	Transport	1,074	1,685	n.a.	577	500	3,800	38	102	12
13	3	PriSCO ^b	Transport	1,055	1,093	150	200	0	1,000	57	2	2
14	14	Novolipetsk Steel	Metals/mining	964	8,717	3,572	6,045	5,252	71,000	26	17	7
15	25	RAO UES	Electricity	514	58,619	1,119	32,979	16,000	469,300	3	16	9
16	20	TMK	Metals/mining	490	3,548	1,076	3,384	4,700	49,670	18	12	10
17	10	Eurochem	Agri-chemical	456	1,850	1,452	1,964	1,170	26,400	34	6	4
18	24	GAZ	Manufacturing	366	2,162	885	4,512	900	110,000	12	10	7
19	9	OMZ	Manufacturing	354	913	356	667	1,965	16,990	35	12	7
20	19	Alrosa	Metals/mining	294	7,556	1,912	3,584	20	35,814	19	7	7
21	23	ChTPZ (Arkley Capital)	Metals/mining	244	1,978	509	2,632	1,800	25,000	13	2	2
22	15	Alliance Oil	Oil/gas	211	1,144	370	1,677	2,700	8,400	24	20	3
23	6	Acron	Agri-chemical	200	1,073	650	897	4,000	13,150	40	8	6
24	21	Euroset	Telecoms/retail	147	896	488	2,970	7,050	34,300	18	11	11
25	18	Mechel	Metals/mining	116	4,449	2,112	4,397	8,424	76,566	21	20	12
TOTAL				58,744	462,722	199,308	314,523	130,345	2,106,512	630		

Source: SKOLKOVO-CPII survey of Russian multinationals.

RUB/USD exchange rate: 26.3255

a. The numbers for 2006 refer to the United Company RUSAL. Its creation, by merging the aluminium assets of Basic Element, Renova and Glencore, was announced on October 9, 2006.

b. Ships ultimately belonging to Russian shipping companies but registered abroad are considered as foreign assets. However, the sailors are counted as Russian employees.

c. As this press release is being published, Novoship is in the process of being merged into Sovcomflot (both companies are controlled by the state).

Annex table 2. The Top 25 Russian MNEs: Regionality Index^a, 2006

Name	CIS	Europe	Middle East	Africa	North America	Latin America	South-East Asia	Offshores ^b
Lukoil	15	59	3	2	7	1	1	12
Gazprom	12	76	1	-	2	1	1	7
Severstal	11	22	-	-	22	-	-	44
Rusal	16	32	-	11	-	16	5	21
Sovcomflot	-	50	-	-	-	-	-	50
Noriilsk Nickel	-	31	-	-	15	-	31	23
AFK Sistema	20	20	-	-	16	-	-	44
VimpelCom	8	17	-	-	-	-	-	75
Novoship	-	33	-	17	-	-	-	50
TNK-BP	100	-	-	-	-	-	-	-
Evraz	-	22	-	33	44	-	-	-
FESCO	13	2	-	-	11	-	7	68
PriSCO	-	50	-	-	-	-	-	50
Novolipetsk Steel	-	88	-	-	6	-	-	6
RAO UES	50	44	-	-	-	-	-	6
TMK	17	58	-	-	8	-	8	8
Eurochem	-	50	-	-	-	-	-	50
GAZ	80	10	-	-	-	-	-	10
OMZ	25	42	-	-	-	-	-	33
Alrosa	-	29	29	14	14	-	14	-
ChTPZ (Arkley Capital)	50	50	-	-	-	-	-	-
Alliance Oil	100	-	-	-	-	-	-	-
Acron	25	38	-	-	13	-	-	25
Euroset	73	27	-	-	-	-	-	-
Mechel	10	40	-	-	5	-	-	45

Source: SKOLKOVO-CPII survey of Russian multinationals.

^a The Regionality Index is calculated by dividing the number of a firm's foreign affiliates in a particular region of the world by its total number of foreign affiliates and multiplying the result by 100.

^b Countries and territories listed as offshore zones by the Central Bank of Russia, such as the Bahamas, Cyprus, Liechtenstein and the Marshall Islands.

Annex table 3: Top 10 Russian outward merger and acquisition (M&A) transactions, 2005-November 2007

(Millions of US\$)

Date	Acquiror name	Target name	Target industry	Target country	% of shares acquired	Value of transaction
14-Aug-07	OAO MMC Norilsk Nickel Group	LionOre Mining Intl Ltd	Metals & mining	Canada	100	6,287
12-Jan-07	Evraz Group SA	Oregon Steel Mills Inc	Metals & mining	United States	91	2,088
6-Dec-05	Lukoil Overseas Holding Ltd	Nelson Resources Ltd	Metals & mining	United Kingdom	100	2,000
28-Nov-05	Alfa Group	Turkcell Iletisim Hizmetleri	Wireless	Turkey	13	1,602
20-Sep-07	RusPromAvto (affiliated to GAZ)	Magna International Inc	Automobiles & components	Canada	18	1,537
20-Dec-06	Novolipetsk Steel OJSC {NLMK}	Steel Invest & Finance SA	Other financials	Luxembourg	50	805
31-Oct-06	OAO SeverStal	Lucchini SpA	Metals & mining	Italy	51	700
14-Jul-06	Investor Group	Highveld Steel & Vanadium Corp	Metals & mining	South Africa	50	681
20-Apr-05	OAO SeverStal	Lucchini SpA	Metals & mining	Italy	62	579
21-May-07	Basic Element Co	Hochtief AG	Construction & engineering	Germany	7	525

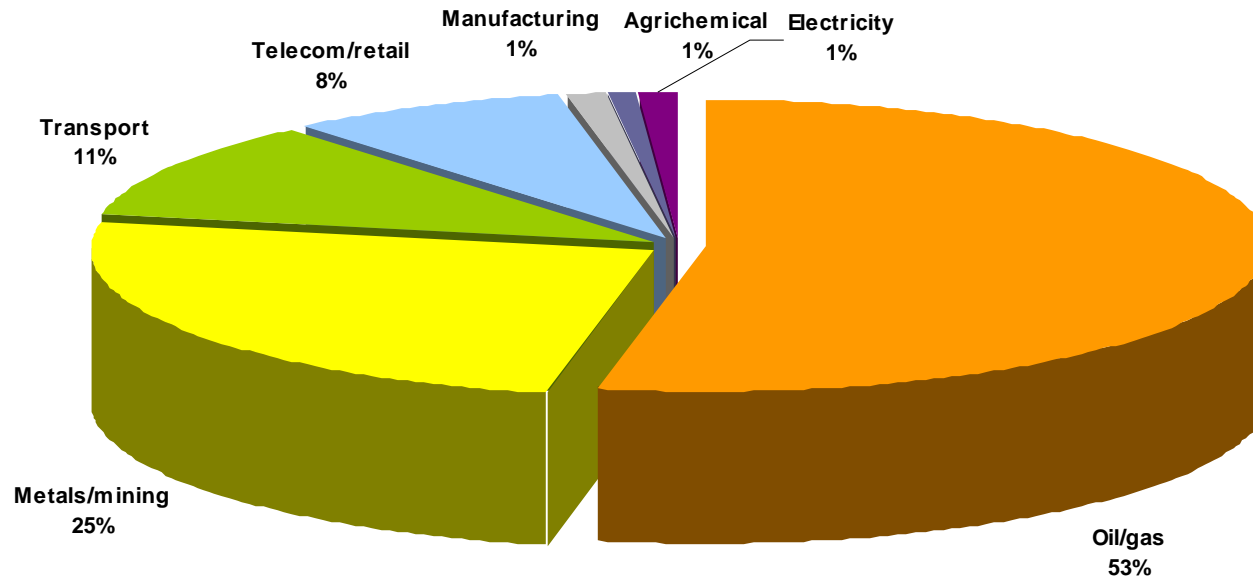
Source: Thomson Financial.

**Annex table 4: Top 10 Russian cross-border greenfield transactions, announced, 2006-October 2007
(Billions of US\$)**

Date	Company name	Destination country	Sector	Value
<i>Feb-06</i>	Gazprom	Serbia & Montenegro	Metals	2.0
<i>Mar-06</i>	Rosneft	China	Warehousing & storage	2.0
<i>Jun-07</i>	Gazprom	Armenia	Metals	1.7
<i>Dec-06</i>	SUAL	Kazakhstan	Metals	1.5
<i>May-06</i>	Russkiy ugol (Russian Coal)	Viet Nam	Metals	1.5
<i>Jan-07</i>	Rosneft	Algeria	Coal, oil and natural gas	1.3
<i>May-07</i>	MMK	Turkey	Metals	1.1
<i>Sep-06</i>	Renova	South Africa	Automotive	1.0
<i>Jul-07</i>	MMK	USA	Warehousing & storage	1.0
<i>Jun-07</i>	Itera Group	Turkmenistan	Transportation	0.6

Source: OCO Monitor, www.ocomonitor.com

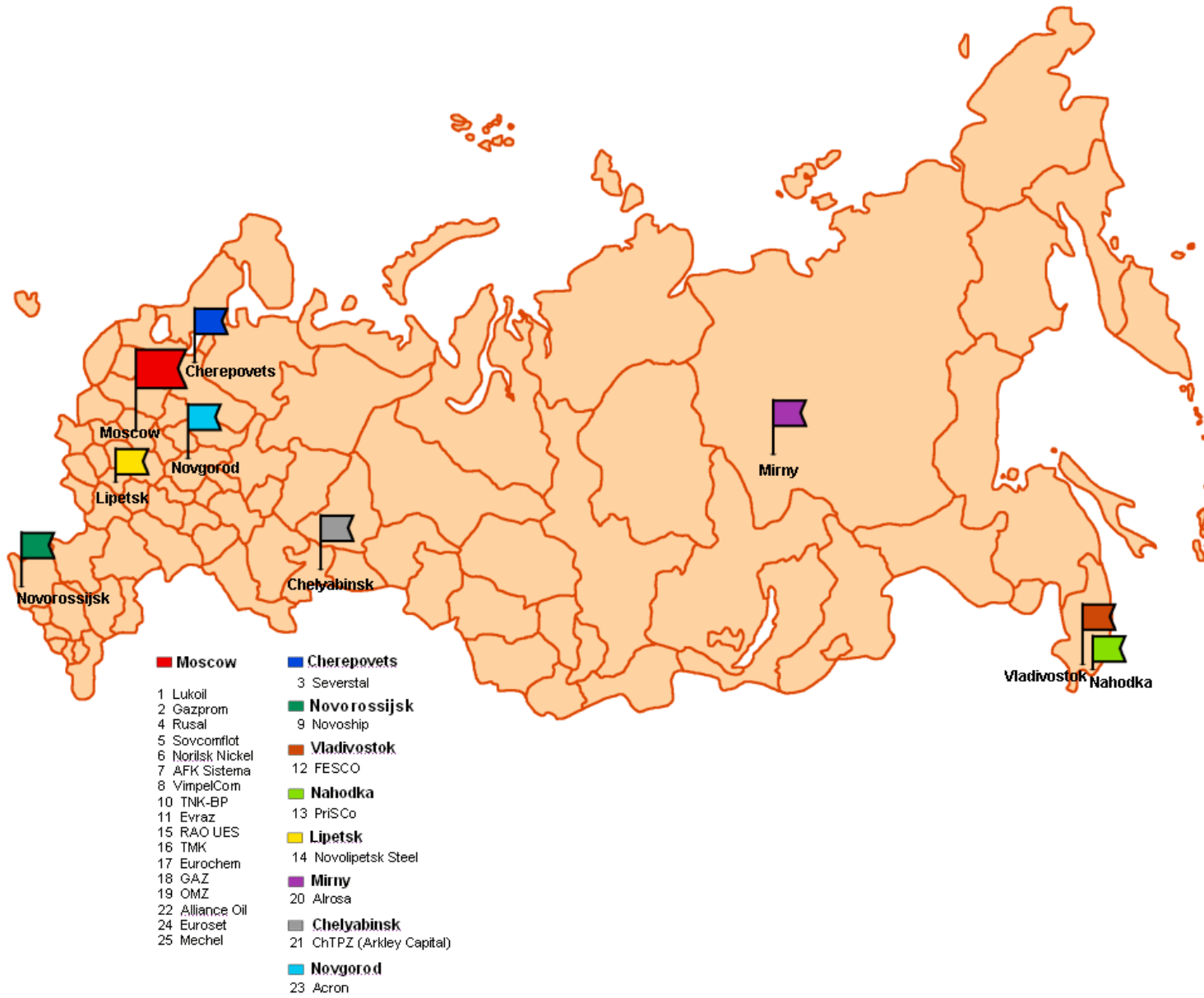
Annex figure 1. Breakdown of the Top 25's foreign assets by industry, 2006



Industry	Foreign assets US\$ million	Companies
Oil/gas	31,305	(4) Lukoil; Gazprom; TNK-BP; Alliance Oil
Metals/mining	14,553	(9) Severstal; Rusal; Norilsk Nickel; Evraz; Novolipetsk Steel; TMK; Alrosa; ChTPZ (Arkley Capital); Mechel
Transport	6,456	(4) Sovcomflot; Novoship; FESCO; PriSCo
Telecom/retail	4,541	(3) AFK Sistema; VimpelCom; Euroset
Manufacturing	720	(2) GAZ; OMZ
Agrichemical	656	(2) Eurochem; Acron
Electricity	514	(1) RAO UES

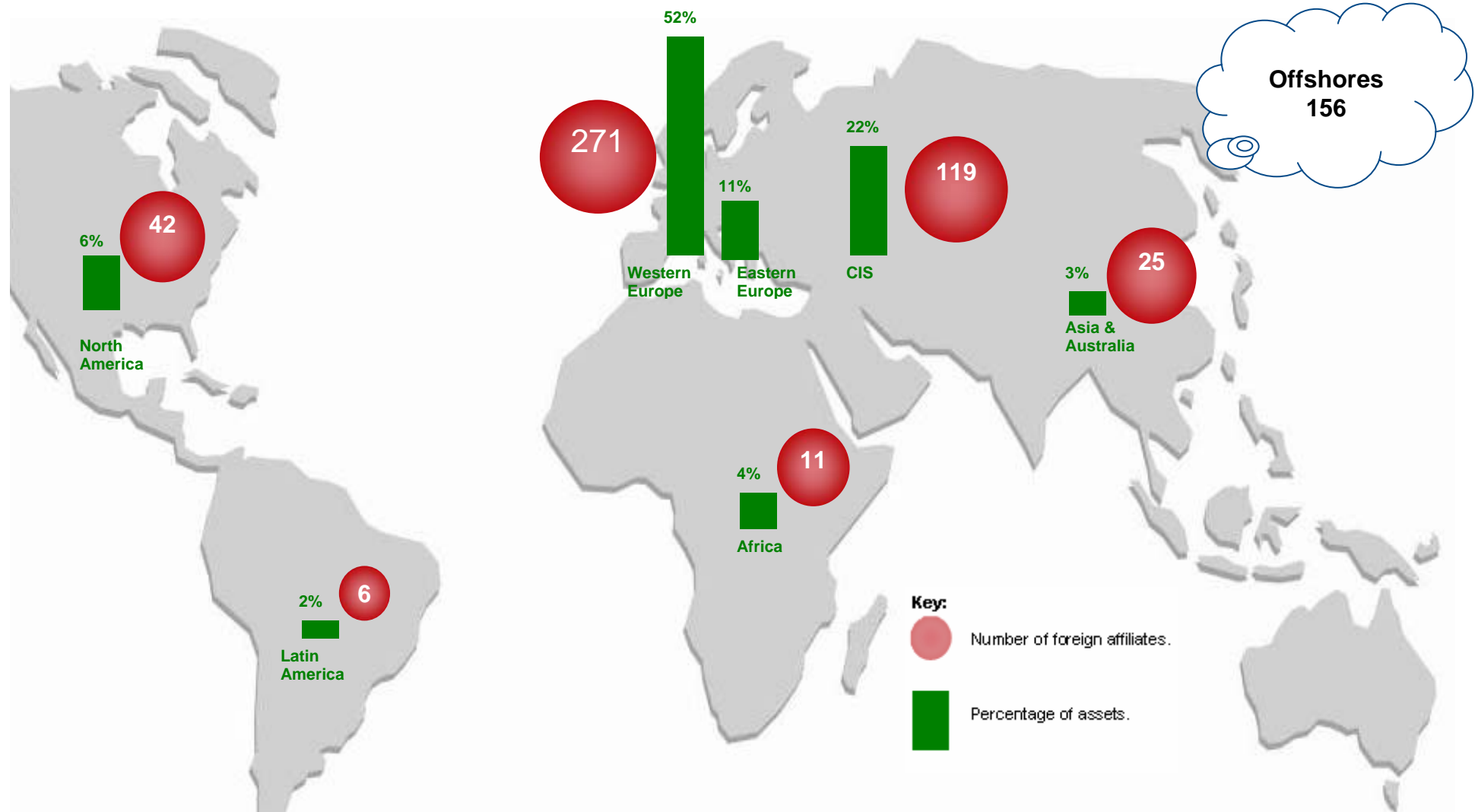
Source: SKOLKOVO-CPII survey of Russian multinationals.

Annex figure 2. Headquarter locations of the Top 25 Russian multinationals, 2006



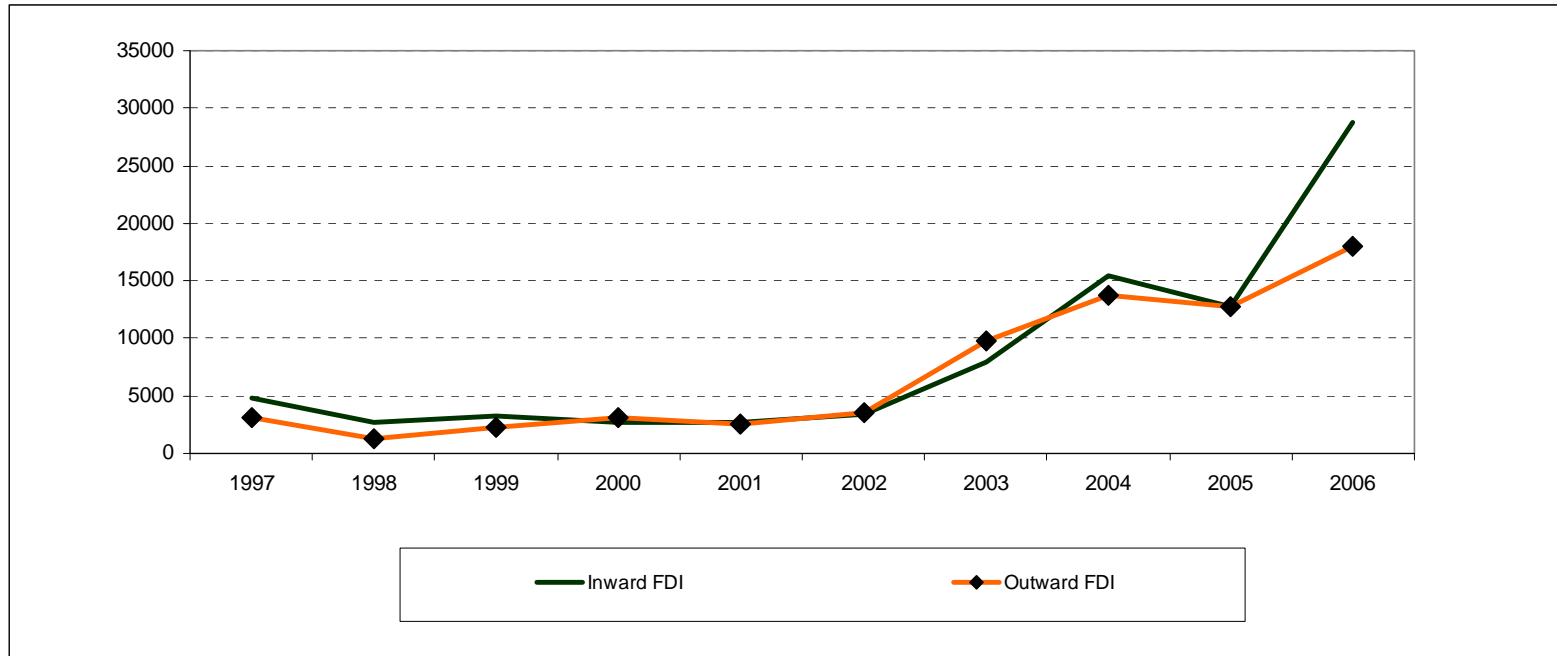
Source: SKOLKOVO-CPII survey of Russian multinationals

Annex figure 3. Foreign assets and foreign affiliates of the Top 25 Russian multinationals, by region, 2006
(Number of affiliates and percentage of foreign assets)



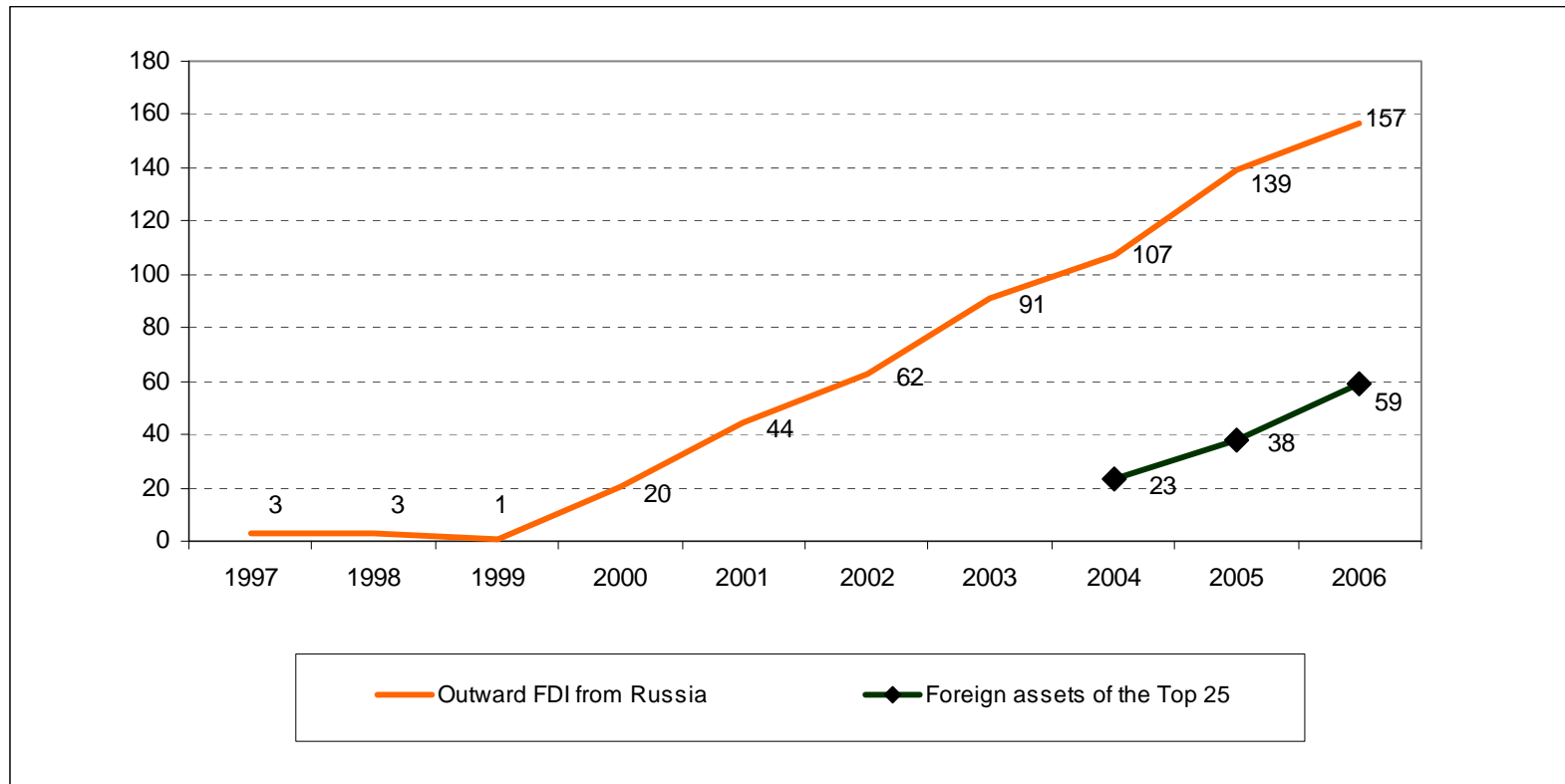
Source: SKOLKOVO-CPII survey of Russian multinationals.

**Annex figure 4. FDI outflows from, and inflows into, Russia, 1997-2006
(Millions of US\$)**



Source: UNCTAD, *World Investment Report*, *op. cit.*

**Annex figure 5. Stock of outward FDI from Russia, 1997-2006
(Billions of US\$)**



Source: UNCTAD, *World Investment Report*, *op. cit.*, and SKOLKOVO-CPII survey of Russian multinationals.