Goldman Sachs

GS SUSTAIN

Equity Research

Identifying Russia's structural leaders

Identifying long-term winners with SUSTAIN

We have applied the GS SUSTAIN framework to 75 companies across our Russian coverage to identify those well positioned to deliver long-term outperformance through sustained high cash returns. The framework combines forecast cash returns with objective measures of industry positioning and management quality, which in a Russian context focus predominantly on ownership and corporate governance issues.

Russia at the intersection of global structural trends

Russia's economy and equity market are undergoing a dramatic transformation through the country's exposure to global structural themes, such as scarcity of natural resources, rebuilding of infrastructure and changing consumer patterns of the growing middle class. Companies able to take advantage of these opportunities and to sustain industry leading cash returns should benefit disproportionately from these trends, offering attractive opportunities for the longer-term investor.

Russia Structural Leaders List

We have identified eight companies that have delivered and in our view will continue to deliver industry leading cash returns: Mechel, EDCL, Alliance Oil, Rosneft and Novatek in the natural resources space and Magnit, Cherkizovo and M-Video in the consumer segment. Investing in this list of companies would have generated over 300% outperformance vs. the MSCI Russia since January 2006.

Russia Structural Leaders Watch List

Disclosure remains sub par in many Russian corporates and is the main reason why a number of companies that are forecast to generate industry leading CROCI do not make it into the list of Structural Leaders. We have identified the next layer of companies for the Russia Structural Leaders Watch List, including companies with strong industry positioning and cash generation, but weak score on ESG criteria. Addressing the low governance score would move the Watch List companies into the Structural Leaders List.

RUSSIA STRUCTURAL LEADERS

Company	Sector	CROCI average 2011-13E, %	CROCI change 2006-10, %	CROCI quartile	position quartile	quality quartile
Novatek	Energy	32.1%	0.3%	1	1	1
Eurasia Drilling Co	Oil Serv & Pipe producers	28.2%	-2.1%	2	1	1
Mechel	Steel	21.9%	-0.6%	2	1	1
Alliance Oil Compa	Energy	17.4%	0.8%	2	1	1
Magnit (GDR)	Consumer	17.1%	-0.2%	2	1	1
Cherkizovo Group	Consumer	16.1%	1.2%	2	1	2
M-VIDEO	Consumer	15.0%	1.4%	2	1	2
Rosneft	Energy	13.9%	1.0%	2	1	2

RUSSIA STRUCTURAL LEADERS WATCH LIST

Company	Sector	CROCI average 2011-13E, %	CROCI change 2006-10, %	CROCI quartile	position quartile	Management quality quartile
Uralkali	Mining	38.3%	2.4%	1	1	3
Globaltrans	Transport	20.3%	2.3%	1	1	3
ChelPipe	Oil Serv & Pipe producers	18.0%	-1.3%	2	1	3
Mail.ru Group Ltd.	TMT	11.2%	3.0%	2	1	3
Raspadskaya	Mining	32.6%	-1.4%	2	1	3
Bank St Petersburg	Banks	19.2%	-2.2%	2	1	3
Pharmstandard	Consumer	35.0%	-2.0%	2	2	3
Sberbank	Banks	23.1%	-1.9%	1	1	4
Mostotrest	Construction	33.9%	6.3%	1	1	4
OGK-4	Utilities	19.7%	1.7%	1	1	4

Source: Goldman Sachs Research estimates .

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Structural leadership in Russia – a stock selection framework to identify long-term winners

GS SUSTAIN identifies companies well positioned to deliver long-term outperformance through sustained industry leading returns on capital (CROCI). The GS SUSTAIN framework integrates analysis of companies' forecast cash returns with objective, quantifiable measures of companies' industry positioning and management quality relative to industry peers.

Building from the global GS SUSTAIN framework, we have applied a modified GS SUSTAIN methodology to 75 Russian companies that we cover to reflect the specific issues facing Russian companies in order to identify stocks that will sustain leading industry CROCI over the medium term, within the Russian market.

Our analysis integrates analysis of forecast cash returns, industry positioning of each business and management quality, which we define through our ESG scoring framework. We believe that high return companies, with strong positions within their industry and effective corporate governance will be well placed to sustain leadership within their industries and ultimately to deliver long-term equity market outperformance.

In our view, structural shifts within the Russian economy and equity market will dominate the Russian investment landscape for the next several years and beyond. The country's resource industries are well positioned to benefit from growing global resource constraints, industrial sectors will benefit from overdue and growing infrastructure investment and the country'srapidly swelling middle class will provide significant growth opportunities for Russia's consumer sectors. Our analysis focuses on 75 companies exposed to these structural trends.

We have applied objective analysis to identify the companies best positioned to benefit from these opportunities. The sector analysis we have applied adapts the global GS SUSTAIN framework to reflect Russian idiosyncrasies. In particular we have attempted to differentiate ownership structures as well as corporate governance as one of the key drivers of sustainable returns across many of the Russian industries. We assess companies on three dimensions to identify those best positioned to sustain industry leadership over the long term.

- **Cash return on cash invested (CROCI):** Consistent with our global analysis, Russia's equity market has consistently rewarded companies with sustained high cash returns. On average Russian companies have top quartile cash returns relative to global peers.
- **Industry positioning:** Within each sector in Russia we apply objective measures to compare companies on the key competitive drivers within each sector to identify those that are the best positioned to take advantage of the long-term trends. Russian companies are, on average, slightly better positioned than their global peers on our measures of industry postioning.
- **Management quality:** Effective management of emerging environmental, social and governance issues is becoming increasingly important to sustained industry leadership. In particular, we believe investors should focus on companies with effective corporate governance measures in assessing their ability to sustain long-term leadership. Russian companies achieve among the worst scores of any country in our global analysis but individual companies stand out within that overall poor performance. As political and investment momentum towards improved ESG management gathers pace, we believe assessment of these risks will become increasingly important.

We have identified eight stocks in Russia that satisfy all four criteria: Mechel, EDCL, Alliance Oil Company, Magnit, Rosneft, Novatek, Cherkizovo and M-Video.

We have also identified the next layer of companies, which comprise the **Russia Structural Leaders Watch List**. We include stocks with the top quartile industry position and first or second quartile CROCI and at least third quartile ESG score. We also include companies with a fourth quartile ESG score if they are in the first quartile by industry position and returns. Russia Structural Leaders Watch List includes the following companies: Uralkali, Globaltrans, Pharmstandard, Sberbank, Bank Saint Petersburg, Mostotrest, OGK-4, Mail.ru, Raspadskaya and ChelPipe.

Exhibit 1: Russia Structural Leaders and Watch List – ranking and thematic exposure

Company	Sector	CROCI quartile	Industry position quartile	Management quality quartile	Theme
Russia Structural Leaders List					
Novatek	Energy	1	1	1	Resource
Eurasia Drilling Company	Oil Services and Pipe producers	2	1	1	Investment
Mechel	Steel	2	1	1	Investment / Resource
Alliance Oil Company	Energy	2	1	1	Resource
Magnit (GDR)	Consumer	2	1	1	Consumer
Cherkizovo Group	Consumer	2	1	2	Consumer
M-VIDEO	Energy	2	1	2	Consumer
Rosneft	Energy	2	1	2	Resource
Russia Structural Leaders Watch List					
Uralkali	Mining	1	1	3	Resource
Globaltrans	Transport	1	1	3	Investment
ChelPipe	Oil Services and Pipe producers	2	1	3	Investment
Mail.ru Group Ltd.	TMT	2	1	3	Consumer
Raspadskaya	Mining	2	1	3	Resource
Bank Saint Petersburg	Banks	2	1	3	Consumer/Investments
Pharmstandard	Consumer	2	2	3	Consumer
Sberbank	Banks	1	1	4	Consumer/Investments
Mostotrest	Construction	1	1	4	Investment
OGK-4	Utilities	1	1	4	Investment

Source: Goldman Sachs Research.

Exhibit 2: We combine Russian long-term investment themes with GS SUSTAIN framework

Accelerating economic and demographic change…

…underpins structural themes and long-term growth opportunities in the Russian equity market

We apply the GS SUSTAIN framework to identify long-term beneficiaries and highlight eight leaders and 10 well placed Watch List companies that are set to benefit

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Russia's economy is growing rapidly….

Our economists forecast Russian GDP to more than double from c.US$1.5trn to US$3.5trn by 2020.

Russian economy to overtake Italy in 2017 and France in 2024.

Russian GDP per capita in market prices to rise from US$10,500 in 2010 to US$27,000 by 2020.

Number of people with income per capita above US$30,000 will double to 40mn by 2020 and triple to 60mn by 2030.

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Driven by intensifying pressure on scarce resources

Russia is a key commodities exporter with c.24% of global gas, c. 6% oil, 8% nickel reserves and 9% aluminium production

p14

…. leads to growth in fixed investment and infrastructure

Announced infrastructure projects total c.US$600bn until 2015

p17

…and increasing wealth levels and accelerating growth in consumption

Substantially higher 2010-30 CAGRs in consumer services (9% vs. 4.2% globally), healthcare (5.6% vs. 3.7% globally)

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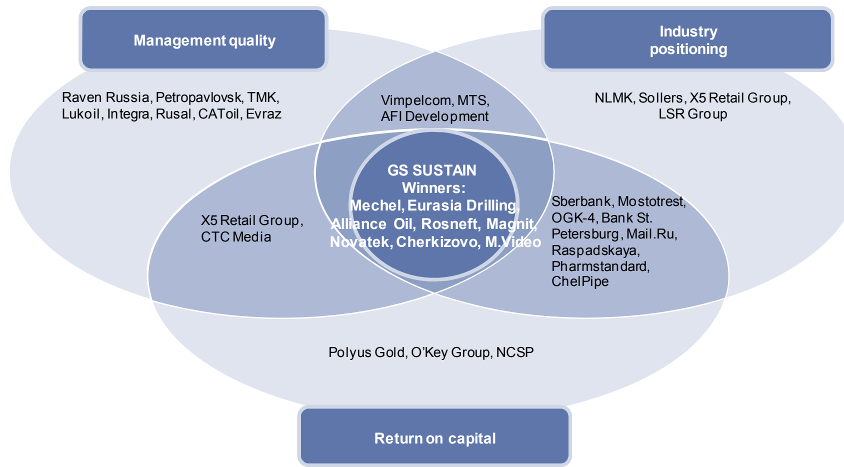
The GS SUSTAIN framework is designed to identify companies well positioned to deliver long-term outperformance through sustained superior cash returns. The framework integrates analysis of companies' forecast returns on capital with objective measures of the industrial and management (principally corporate governance) drivers of those returns. Eight companies stand out as leaders relative to Russian peers on all three dimensions of the analysis. We also highlight nine companies with potential to demonstrate leadership through improved disclosure and corporate governance

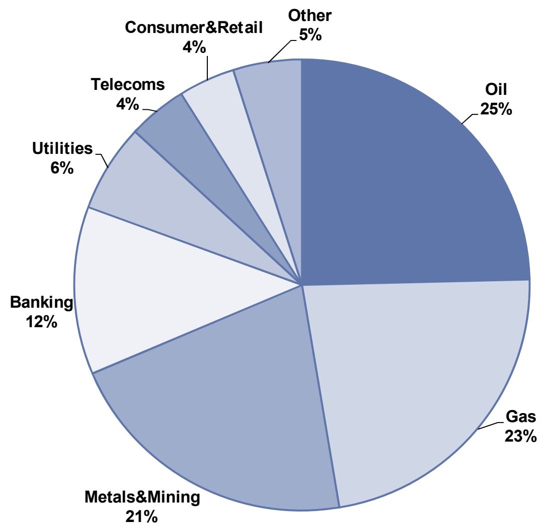


Source: Goldman Sachs Research.

The structure of the Russian public market will change dramatically in the medium term

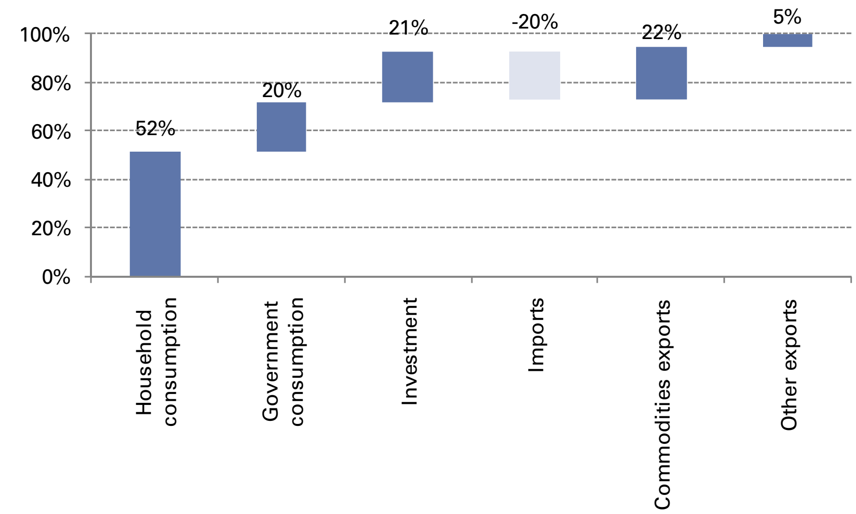
Over the next ten years, our economists expect Russia's GDP to almost triple to US$3.5 trn. However, in our view there is a significant mismatch between the current composition of GDP and that of the public market. Some 70% of today's market cap is concentrated in the natural resources sectors, while the export of commodities accounted for only 22% of Russian GDP in 2010. In our view this tremendous GDP growth potential of the coming decade will have significant impact on the Russian equity market capitalization and its composition – the increase in market value will likely be skewed towards non-resource sectors, as natural resource wealth starts to flow into consumer spending and infrastructure investment. Consumer spending and infrastructure investment represent two of the main structural themes we identify for Russia.

Exhibit 3: Russian market is dominated by commodities companies…
Composition of the current Russian market cap, %



Source: Factset, Goldman Sachs Research estimates.

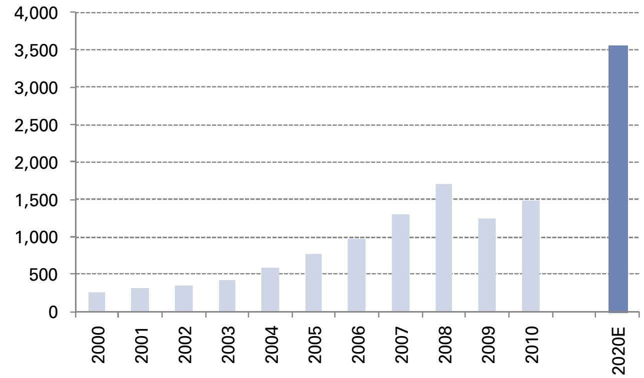
Exhibit 4: …while the share of commodities exports is much smaller
Composition of Russian 2009 GDP, %



Source: Rosstat.

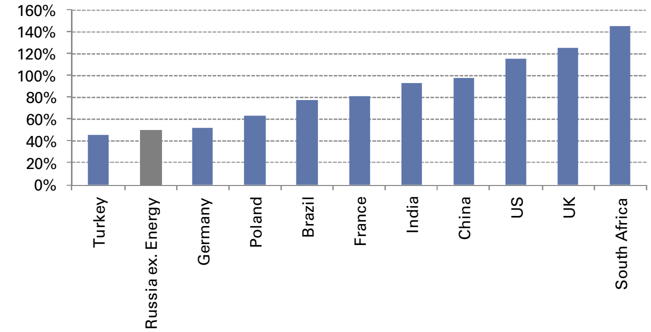
If Russia is to approach its developed market peers in terms of a market cap to GDP ratio of around 100%, the market value of Russian equities should more than triple to US$3.5 trn on our macro forecasts from around US$1.0 trn now. Within that, if the Russia ex-commodities segment, which currently accounts for around 30% of Russian market cap (US$300 bn), were to trade at 80% of Russia ex-commodities GDP, which is where the Brazilian market is trading at the moment, assuming no substantial changes to the GDP structure, we estimate that the segment's market value could rise to over US$2 trn through new issuance and an increase in value. The key sectors to benefit within the non-resource portion of the market are broader consumer companies, such as retailers, TMT and financials as well as infrastructure related companies, such as transport, construction and real estate.

Exhibit 5: Russian GDP to add around US$2 trn over the next 10 years
Nominal GDP, US$ bn



Source: Goldman Sachs Research estimates.

Exhibit 6: Russia market cap ex-resources is low relative to GDP
Market cap to 2010 GDP, %



Source: Bloomberg, Goldman Sachs Research estimates.

The structural themes that will shape Russia's development over the next decade are already becoming a driver of primary equity issuance – post-crisis IPOs and secondary offerings have been disproportionately skewed towards the broader consumer sector, while the government's vast privatization program is focused mainly on infrastructure and financial companies.

Exhibit 7: Post crisis equity issuance has been skewed towards consumer and infrastructure companies…

Company Name	Sector	Date	Venue	Type	Approx. Size, US$ mn
Nomos Bank	Financials	Apr-2011	LSE, MICEX, RTS	IPO	718
Etalon Group	Real Estate	Apr-2011	LSE	IPO	575
Ros Agro PLC	Consumer	Apr-2011	LSE	IPO	300
VTB	Financials	Feb-2011	LSE, MICEX, RTS	SPO	3,269
Hydraulic Machines & Systems	Industrials	Feb-2011	LSE	IPO	360
Pharmsintez	Pharma	Nov-2010	MICEX	IPO	15
Mail.ru Group	Internet	Nov-2010	LSE	IPO	912
O'Key Group	Retail	Nov-2010	LSE	IPO	420
Mostotrest	Construction	Nov-2010	MICEX, RTS	SPO	388
IRC	Basic Materials	Oct-2010	Hond Kong SE	IPO	222
Russian Navigation Technology	Industrials	Jul-2010	MICEX	IPO	10
Diod OAO	Industrials	Jun-2010	MICEX	IPO	9
Kuzbasskaya Toplivnaya	Basic Materials	May-2010	MICEX	IPO	97
Protek	Consumer	Apr-2010	MICEX, RTS	IPO	400
Russian Sea Group	Consumer	Apr-2010	MICEX, RTS	IPO	90
Rosinter	Consumer	Feb-2010	MICEX, RTS	SPO	28
RUSAL	Basic Materials	Jan-2010	Hond Kong SE	IPO	2,236
Exillon Energy	Energy	Dec-2009	LSE	IPO	100
Human Stem Cell Institute	Other	Dec-2009	MICEX, RTS	IPO	5
Magnit	Retail	Nov-2009	LSE	SPO	525
Synergy	Consumer	Oct-2009	MICEX, RTS	SPO	80
PetroNeft Resources	Energy	Oct-2009	LSE	SPO	23
Evraz Group	Basic Materials	Jul-2009	LSE	SPO	315
Volga Gas	Energy	Jul-2009	LSE	SPO	27

Source: Bloomberg, Goldman Sachs Research.

Exhibit 8: ...the government's privatization program is focused on infrastructure and financial sectors

Company	Sector	Stake to be sold	Timing
Rushydro	Utilities	7.97% - 1 share	till 2013
Federal Grid	Utilities	4.11%	
Rosneft	Energy	up to 15%	2012-15
Sberbank	Financials	7.6%	
VTB	Financials	10-15%	2012
Russian Agricultural Bank	Financials	25%	till 2015
Sovcomflot	Transport	50% - 1 share	
Aeroflot	Transport		
Russian Railways	Transport	25% - 1 share	2013-15
Rosagroleasing	Financials	50% - 1 share	
OZK (United Grain Company)	Consumer	100%	

Source: Interfax.

Russian structural themes – resources, infrastructure, consumer wealth

Our GS SUSTAIN team has identified four major structural industrial trends that are likely to dominate investment decisions over medium and long term:

- Rising global productivity to lead to an acceleration in global GDP growth;
- Increasing wealth levels to lead to exponential growth in consumption; and
- Continued growth in capital investment; which in turn
- Intensifies pressure on scarce resources.

Russia is an integral part of the global economic system, so these trends are to a large extent applicable to the Russian market as well, although the order of the impact of these trends on the Russian economy is slightly different in our view.

Exhibit 9: Structural themes of the Russian development

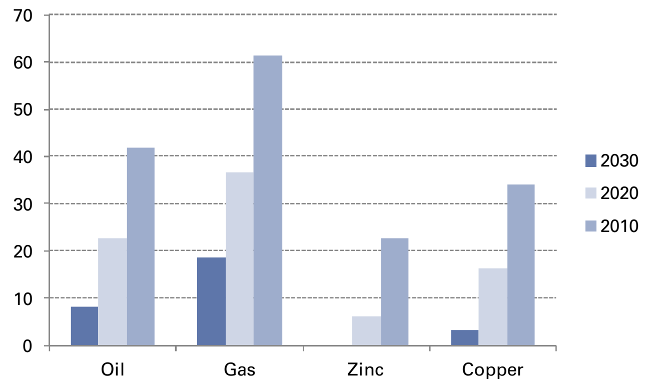
Acceleration in global growth…	**…intensifies pressure on scarce resources…**	**…this will drive growth in fixed investment…**	**…increasing wealth levels and exponential growth in consumption**
•Driven to a large extent by the rise of the BRICs economies	•Global demand for commodities will support structurally high and rising prices for commodities	•Elimination of bottlenecks is a key issue for economic growth •Upgrade of legacy Soviet infrastructure is a key priority, otherwise significant problems for delivery of these resources to international markets	•Russia is still significantly underpenetrated with regard to most services •Growth in discretionary consumption and market consolidation are the key industry themes

Source: Goldman Sachs Research.

Global resource scarcity highlights the long-term attraction of the Russian equities

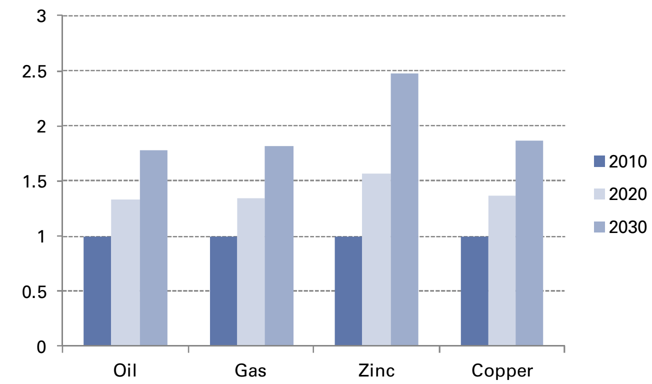
We believe that global demand for commodities may double over the next 20 years, given dramatic forecast growth in GDP per capita and consumption in the growth markets over that period.

Exhibit 10: Years of proven reserves at 2010 reserves and forecast consumption



Source: World Bank, Wood Mackenzie, BP Statistical Review of World Enegry, Euromonitor, WRI, Goldman Sachs Research estimates.

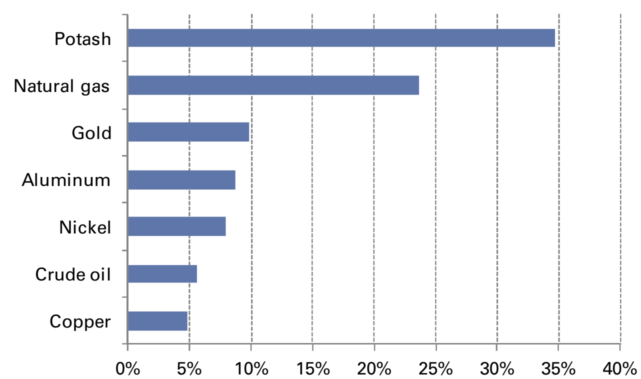
Exhibit 11: Annual consumption of commodities could nearly double by 2030



Source: World Bank, Wood Mackenzie, BP Statistical Review of World Enegry, Euromonitor, WRI, Goldman Sachs Research estimates.

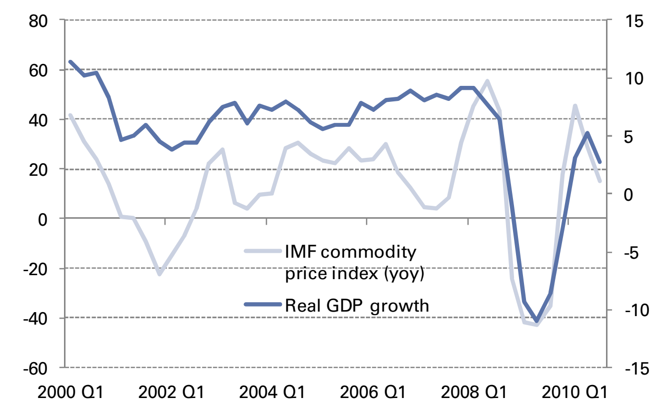
Russia is a key commodities producer and exporter, with close to 24% of the global gas reserves, close to 6% in oil, 8% in nickel reserves and 9% in aluminum production.

Exhibit 12: Dominance in some key commodities reserves will remain a key investment theme in Russia
% of global reserves



Source: US Geological Survey, BP Statistical Review.

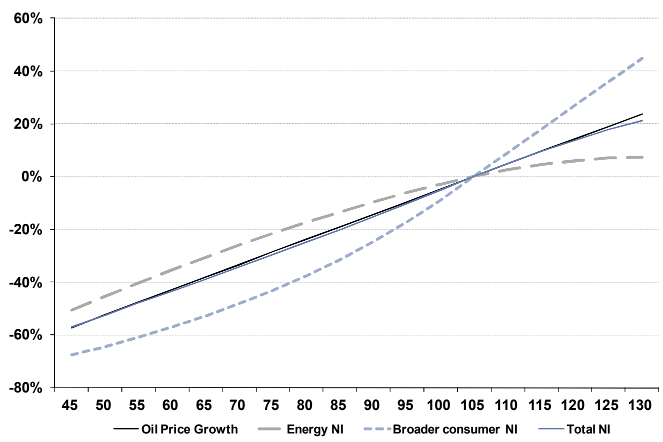
Exhibit 13: Russia GDP growth over the last 10 years has been strongly correlated with commodities strength
Russia GDP growth (RHS) vs Commodities price index (LHS), %



Source: IMF, Rosstat, Goldman Sachs Research estimates.

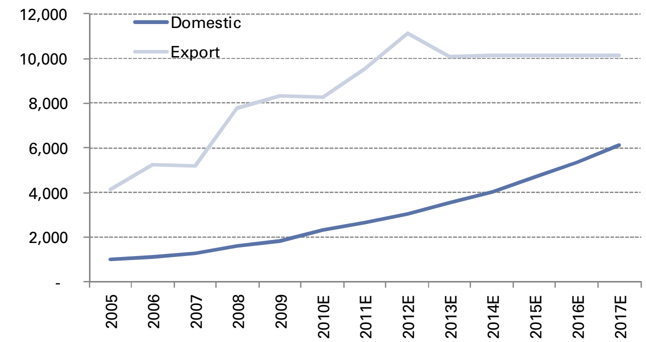
The Russian market clearly benefits from this position – it has a number of companies with unique access to these scarce resources; however, there are distinct differences between various commodities industries. For example Russian oil companies are unlikely to be the main beneficiaries of the likely structural increase in energy prices, given the peculiarities of the tax regime in Russia, which redistributes the excess cash generated during periods of oil price strength to the government. By contrast the gas sector not only benefits from the increase in commodity prices but from tariff rebalancing, which will move domestic gas tariffs towards export netback parity over the medium term.

Exhibit 14: Non-energy domestic sectors in Russia are greater beneficiaries of oil price hikes
Earnings sensitivity of energy and non-energy sectors on the back of oil price strength



Source: Goldman Sachs Research estimates.

Exhibit 15: Domestic gas price is moving closer to export netback parity
Gazprom's domestic and export gas prices, RUB/mcm



Source: Company data, Goldman Sachs Research estimates.

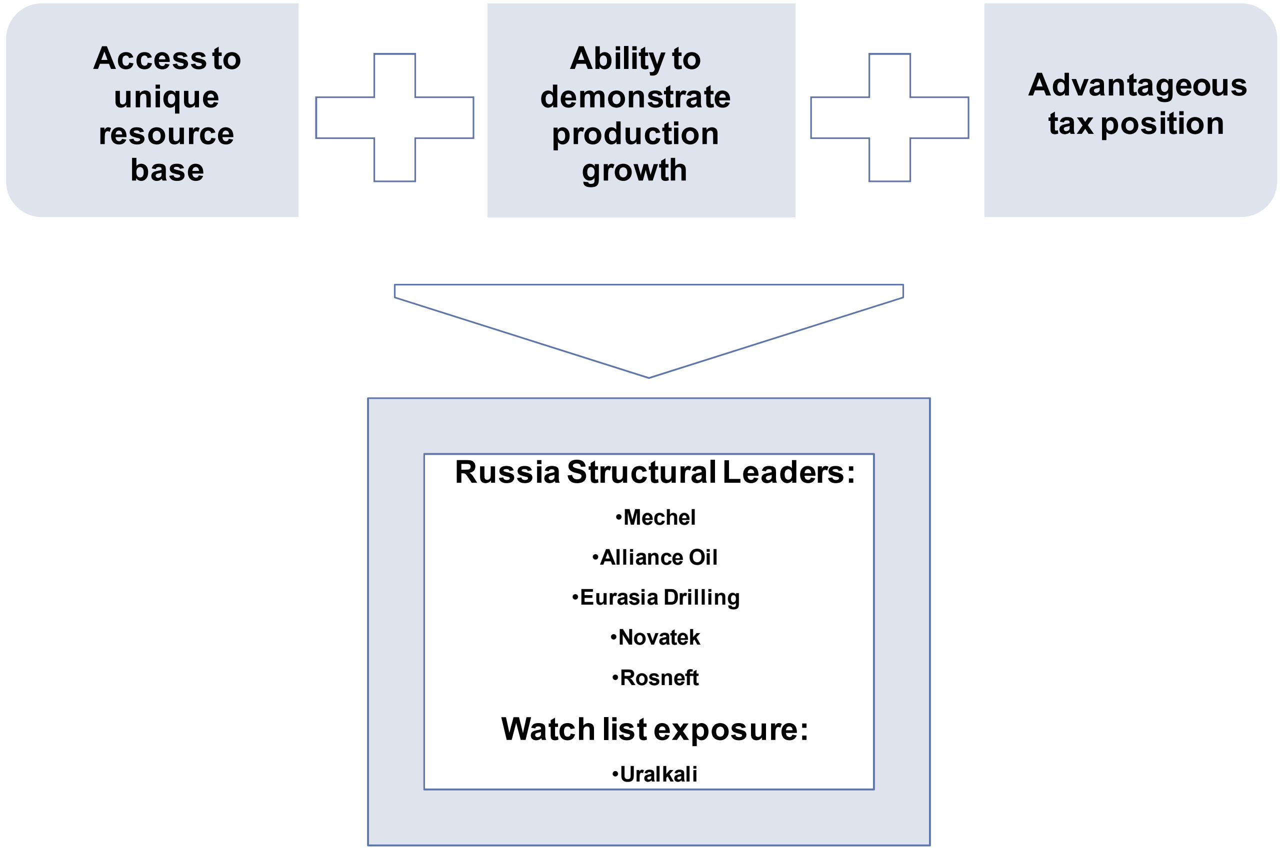
One of the key differentiating features of the Russian natural resource space is the tax treatment of various commodity sectors and therefore their potential political risks. At the moment, the Russian oil industry is carrying a disproportionate tax burden relative to the rest of the natural resource complex. We do not believe that this situation will change dramatically, although a shift within the sector's taxation is already happening with the potential introduction of 60-66 reform, which reduces somewhat the export duty on crude oil and increases it on the oil products. However, taxation levels – both mineral extraction taxes and export duties – are significantly lower in almost all other mining or natural resources related industries. There is a risk that the levels of taxation in other commodity related industries may actually rise closer to oil industry levels, with the gas sector looking particularly vulnerable given the magnitude of the domestic gas price increase and its positive impact on the profitability of the industry.

Exhibit 16: Level of taxation in extracting industries
Level of MET and export duty for commodities in Russia

	MET	Export duty
Crude oil	51.4 US$/bbl	18.2 US$/bbl
Natural gas	30% of revenue	RUB 239 per mcm. 2011
Gold, Silver	Royalty 6% of revenue	
Base metals, coal, iron ore	4-6% of costs	Nickel and copper 10%
PGMs	4-6% of costs	6.5%
Potash	0%	0%

Source: Goldman Sachs Research.

Exhibit 17: The Structural Leaders' value chain in the resource segment of the market would look as follows

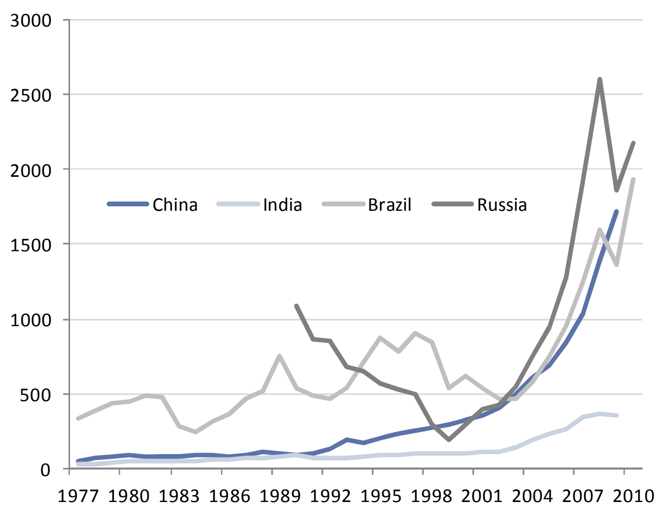


Source: Goldman Sachs Research.

Russia infrastructure investment – half a trillion US$ just in the short term…

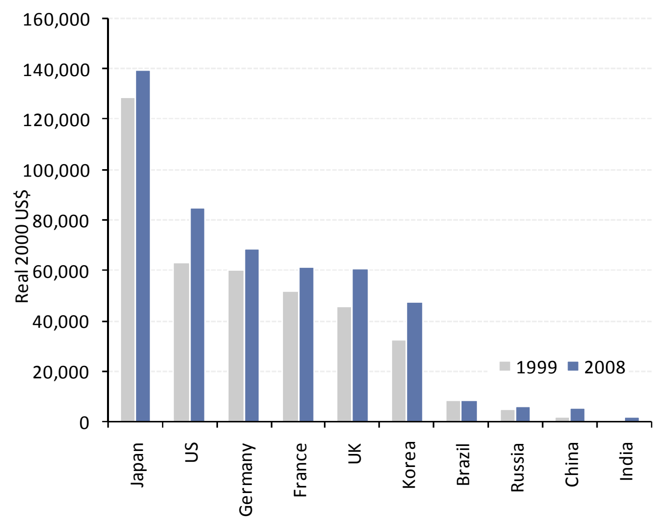
Apart from the sector, another clear beneficiary of the structural increase in commodity prices in Russia should be the broad infrastructure segment. Despite increased investment in 2000-08, Russian capital stock remains extremely worn out. According to the Energy Ministry and the Federal Grid, the average age of power generation assets is 33 years, transmission assets 30 years; according to the Ministry of Transport, depreciation levels of railroads across the country is 59%; according to Mostotrest depreciation level of bridges is 19%, auto roads is 35%.

Exhibit 18: Fixed investment per capita has more than quadrupled in Russia…
Gross fixed capital formation per capita, US$



Source: World Bank, Goldman Sachs Research.

Exhibit 19: …but per capita stock of fixed assets remains low
Capital stock per capita



Source: World Bank, Goldman Sachs Research.

The investment needed to overhaul Russian's aging infrastructure is significant. A modest estimate of only some of the programmes publically mentioned by government officials puts the value well above US$500 bn over the next five years, with the bulk of it allocated to transport infrastructure. The need for a complete overhaul is clear – Russia ranks among the lowest on the quality of infrastructure and the slowdown in the rate of investment after the crisis has pushed its rank even lower.

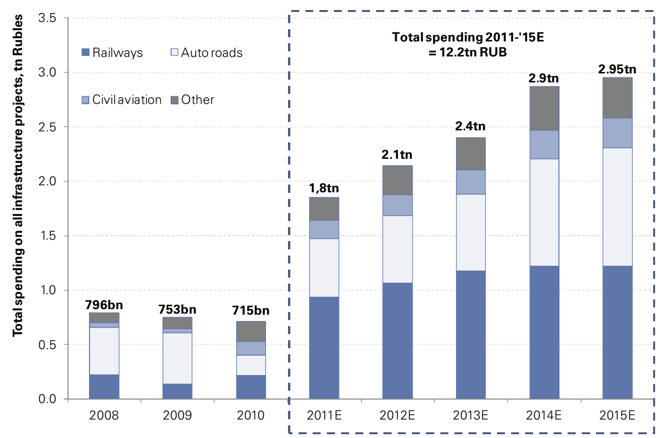
These plans have existed for a long time on paper, but the fact that Russia has committed to high profile international events such as the Sochi Olympics in 2014 and the World Cup in 2018 gives these plans credibility.

Exhibit 20: Announced infrastructure projects total over half a trillion US$ over the next five years
US$ bn

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total (2011-15)
Pipelines				14.8	16.3	15.8	11.5	10.4	9.9	**64**
Power				11.8	14.3	15.8	16.1	15.0	8.1	**69**
Transport	26.9	34.7	31.6	20.1	62.2	78.0	87.5	104.5	107.5	**440**
Road	14.8	16.7	15.3	6.2	18.2	22.3	25.7	35.7	39.7	**142**
Rail	7.3	8.7	7.8	7.2	31.4	38.9	42.8	44.5	44.3	**202**
Sea	2.3	3.7	3.0	2.0	3.0	3.4	3.8	5.1	5.4	**21**
Air	2.4	3.0	2.6	4.1	5.5	7.1	8.2	9.7	10.0	**41**
Other	0.1	2.6	2.9	0.7	4.0	6.2	7.0	9.4	8.1	**35**
Sochi	0.6	1.6	1.3	1.4	1.5	1.4	1.3	1.2	0.0	**5**
TOTAL	27.4	36.3	32.9	48.1	94.3	110.9	116.4	131.0	125.5	**578**
% GDP	2.1%	2.2%	2.7%	3.2%	5.3%	5.1%	4.8%	4.8%	4.1%	
GDP	1297	1670	1232	1500	1768	2170	2430	2722	3048	

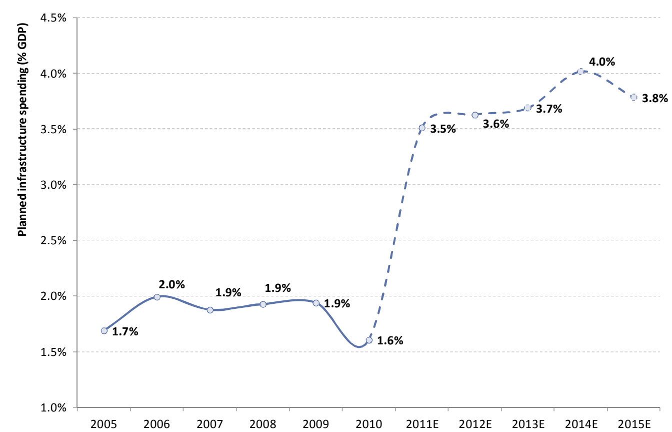
Source: Interfax.

Exhibit 21: Total approved spending exceeds Rub12 trn in 2011-15
Total planned government spending on infrastructure projects, Rub trn



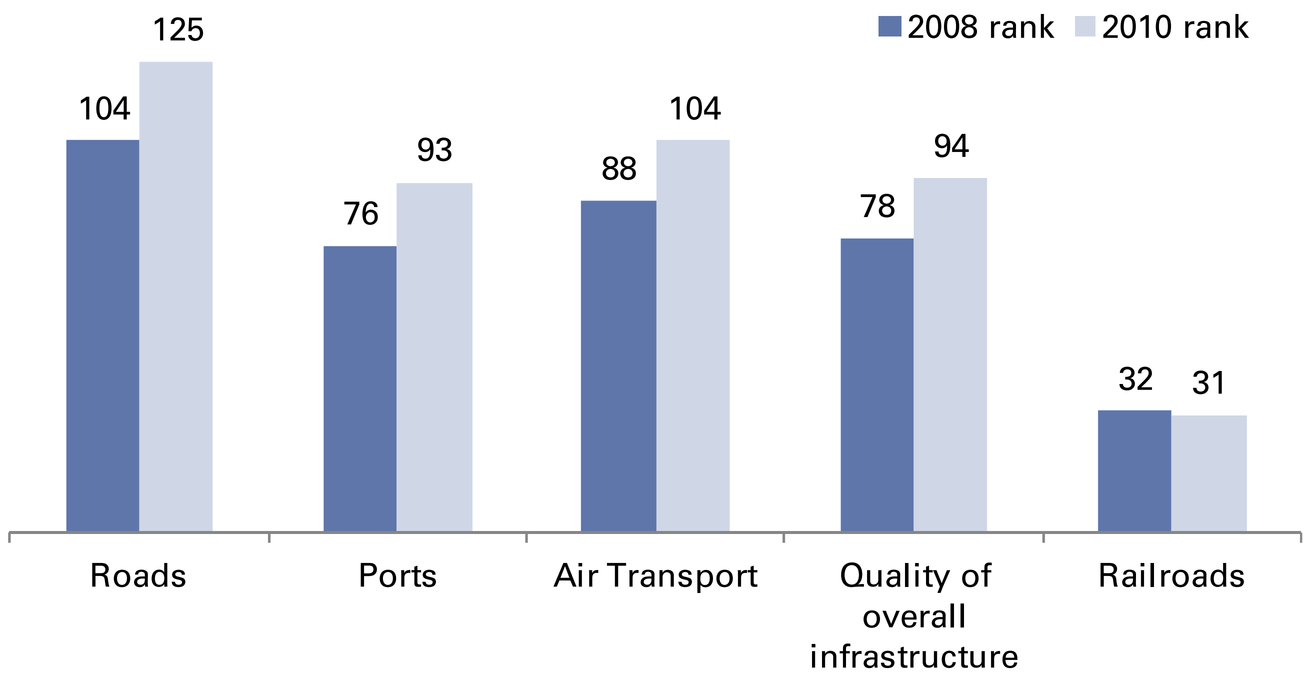
Source: Federal Target Programme "Modernization of transportation system".

Exhibit 22: Actual (2005-10) and government planned (2011-15) infrastructure spend in Russia as a % of GDP



Source: Ministry of Transportation, Goldman Sachs Research estimates.

Exhibit 23: Russian infrastructure ranking is unimpressive
Rank among 139 countries



Source: WEF Global Competitiveness Report, 2010-2011.

In our view the key sectors to benefit the most from the investment boom over the next decade are:

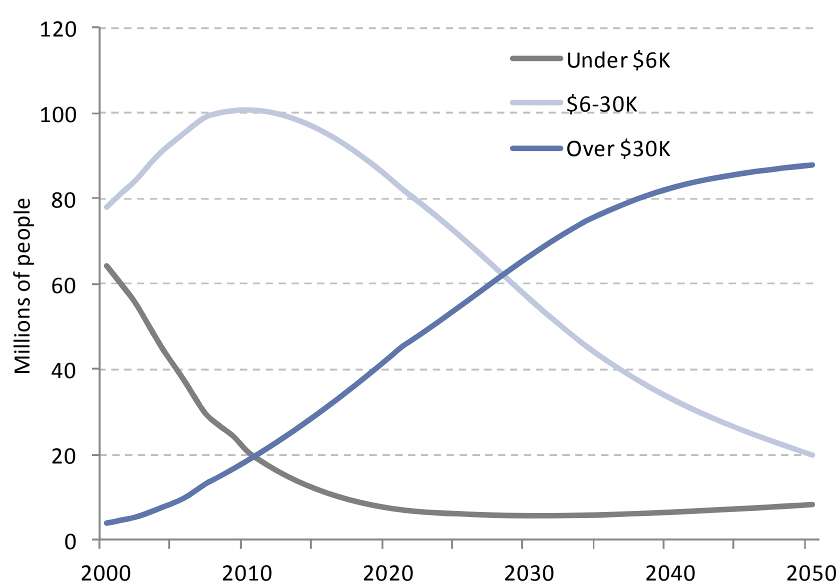
- **Steel.** The steel sector provides the most liquid exposure to the investment theme in the Russian equity market. The Exposed Structural Leader is **Mechel**. The Watch List company is **Chelyabinsk pipe**.
- **Construction and home builders**. Domestic construction firms are the main beneficiaries of the infrastructure investment boom. We do not have SUSTAIN list stocks yet within this theme, but the company that is on the Watch List in this theme is Mostotrest.
- **Transport**. This sector is a long-term beneficiary of the infrastructure theme, both as a result of investment as well as significant increases in activity. We identify no Structural Leaders yet, but **Globaltrans** is our main exposure through the Watch List.
- **Financial services**. Demand for investment will be increasingly funded by domestic capital sources. Companies with large deposit bases will benefit. There are no Structural Leaders in this segment, but **Sberbank** and **Bank St Petersburg** are on the Watch List.

Changing consumer patterns and higher per capita incomes defining theme of the decade

In his speech to the Duma in April 2011, Prime Minister Putin outlined the government's goal to increase GDP per capita to US$35,000 by 2020 (we assume he meant purchasing power parity) from the current US$15,800 (Source: IMF) by 2020. Goldman Sachs economists' most recent long-term forecast for BRICs (see *Global Economics Paper 192: The Long-Term Outlook for the BRICs and N-11 Post Crisis*) projects that the Russian economy will overtake that of Italy in 2017 and that of France in 2024. Assuming a euro exchange rate of US$1.50 and a nominal growth rate of 4% annually for those countries (2% real, 2% inflation), this would imply Russian GDP per capita in market prices will rise to around US$27,000 by 2020 from US$10,500 in 2010. Assuming a similar 4% nominal growth rate for the US, Russia's GDP per head would rise from 21% that of the US to 39%, a level similar to that of the Czech Republic today. If we assume that Russia's ratio of market price to PPP GDP at that point will be similar to that of the Czech Republic today, this suggests that Russia's per capita GDP in PPP terms will rise to US$36,000, a level similar to that cited by Prime Minister Vladimir Putin.

Over the last decade of high energy prices, Russian GDP per capita has substantially exceeded forecasts, especially at the beginning of the decade – as a result average monthly wages have risen from US$90 in 2000 to US$750 in 2010 or by a cumulative 700%. Structural increases in commodity prices over the next decade are likely to mean significant upside to our current forecasts of US$ wage growth of 24% in US dollar terms based on an average forecast oil price of US$116 in 2011 and US$130 in 2012.

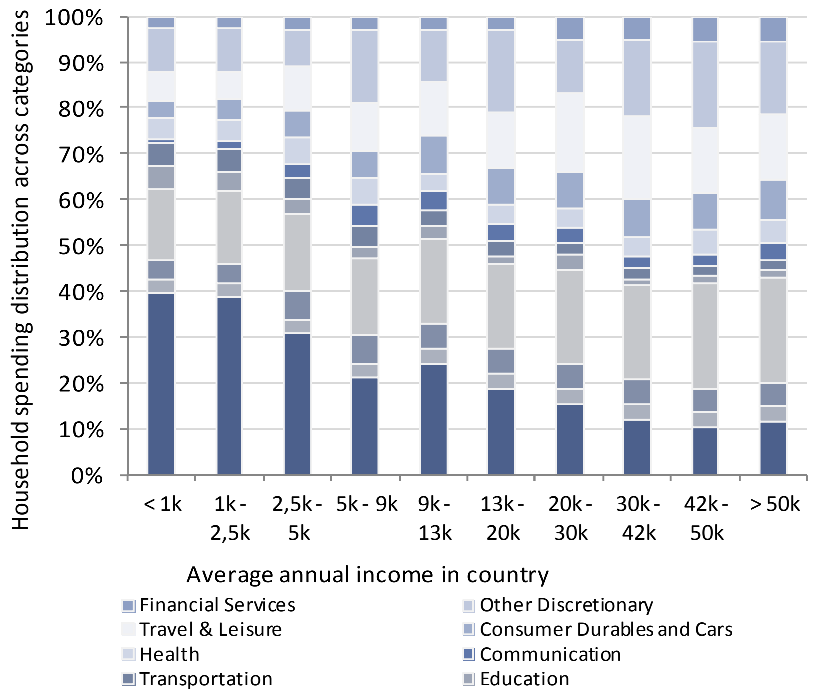
Exhibit 24: Evolution of the income bands in Russia – from 2000 to 2020
Number of people in each income category, mn



Source: Goldman Sachs Global ECS Research.

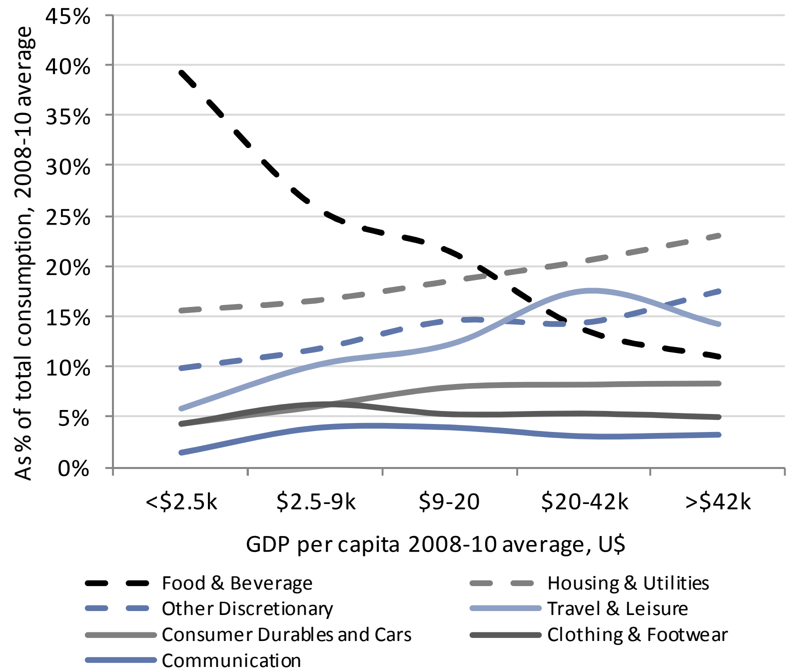
We believe that the biggest focus of the coming decade is likely to be on changing consumer patterns. GS SUSTAIN identifies significant changes in consumer behavior patterns with the overall increase in the country's wealth levels. Russian households still spend 37% of their total expenditure on food. Of note is that this level has not changed dramatically over the last decade, which is likely explained by better diets in Russian households. This also is likely to mean that a significant shift in consumer patterns is about to begin, when the average income per capita has reached US$10,400 (2010). Exhibits 25 & 26 highlight globally observed trends.

Exhibit 25: Consumption pattern change with rising incomes
Major consumer categories as % of total individual consumption by country wealth band (GDP per capita), 2010



Source: United Nations, Goldman Sachs Global ECS Research.

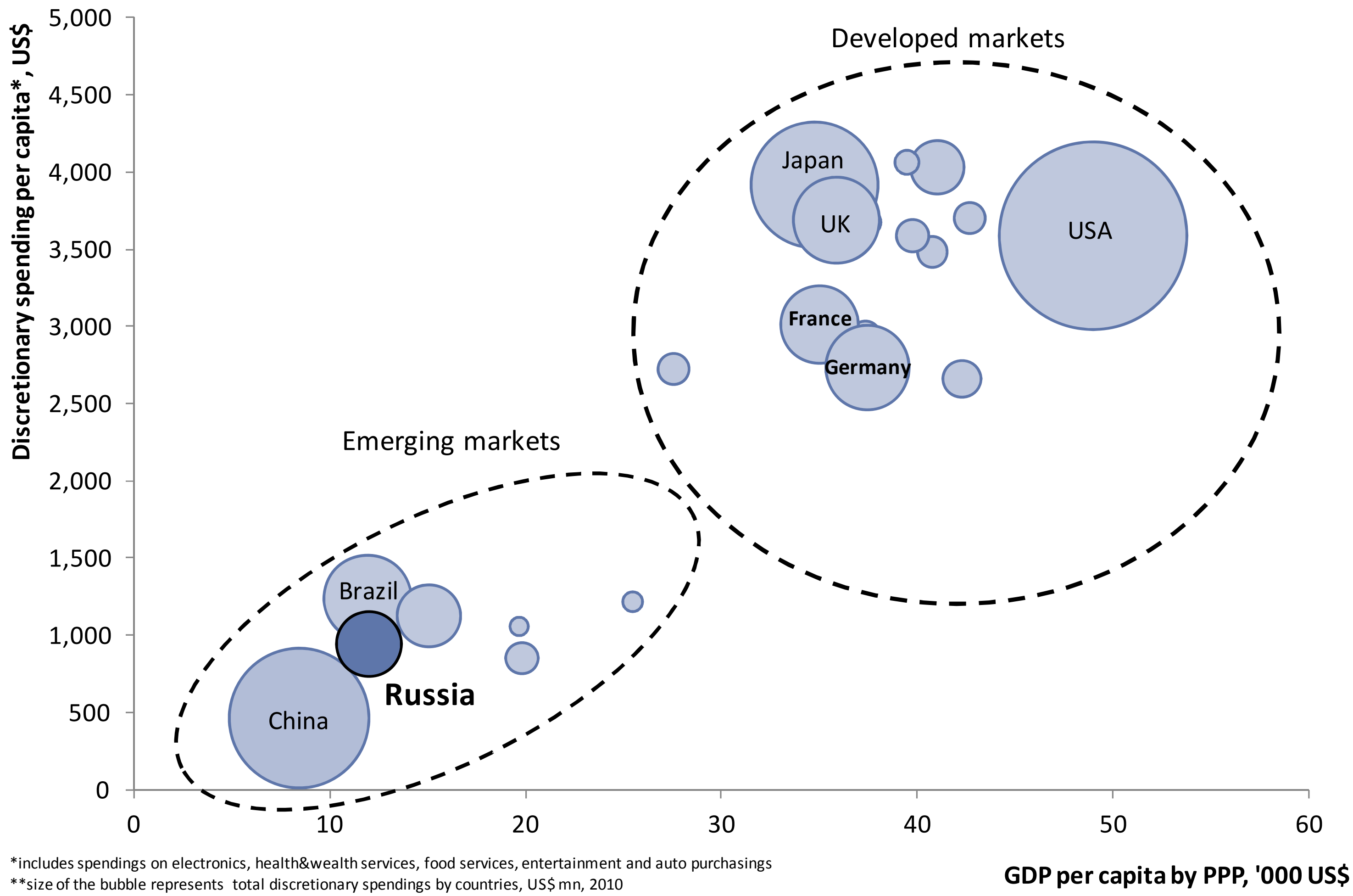
Exhibit 26: …providing a basis to project consumption shares as economies develop
Average national share of total consumption in each product category, average by income levels



Source: United Nations, Goldman Sachs Global ECS Research, GS SUSTAIN.

For the time being consumer spending on discretionary items in emerging markets and Russia in particular lags developed markets.

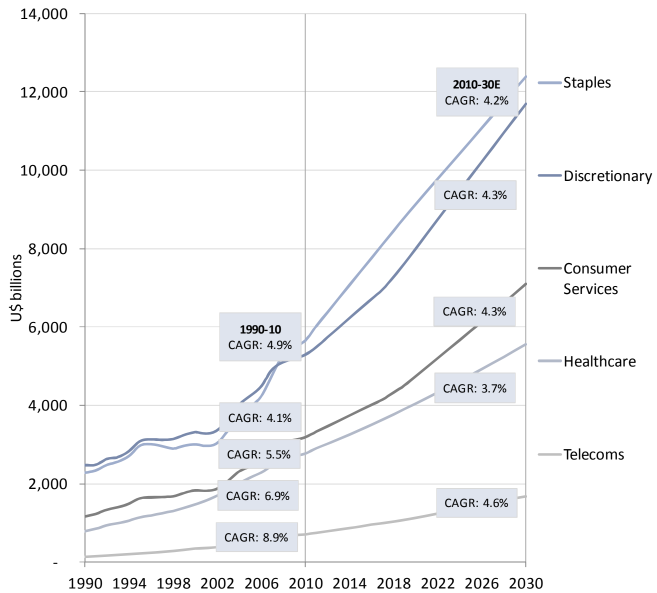
Exhibit 27: Significant upside potential for discretionary consumer spending in emerging markets and Russia in particular
Discretionary spending vs GDP per capita



Source: Goldman Sachs Research estimates.

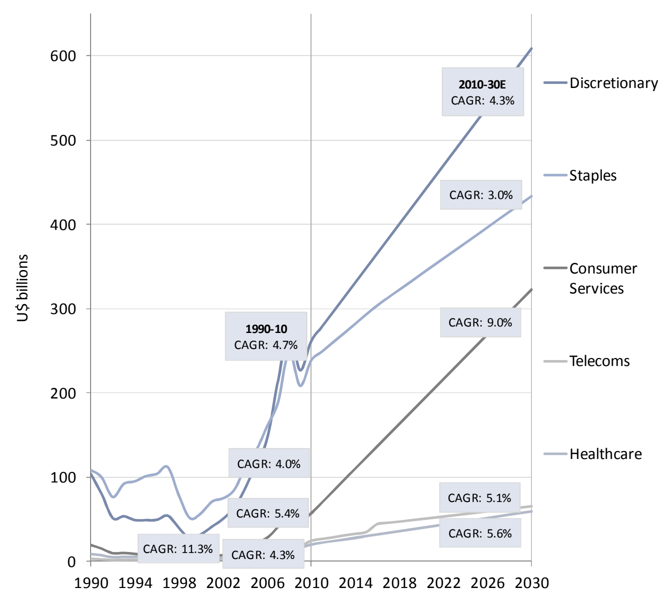
Based on the GS SUSTAIN team's analysis. Russian growth rates in 2010-30 in select consumer related categories, such as consumer services (household and domestic services, recreational services, package holidays, accommodation & catering), telecoms and healthcare will substantially exceed global trends, highlighting changing consumer patterns driven by increases in disposable incomes per capita (Exhibits 28 & 29).

Exhibit 28: Implied global consumption by category



Source: Goldman Sachs Research estimates.

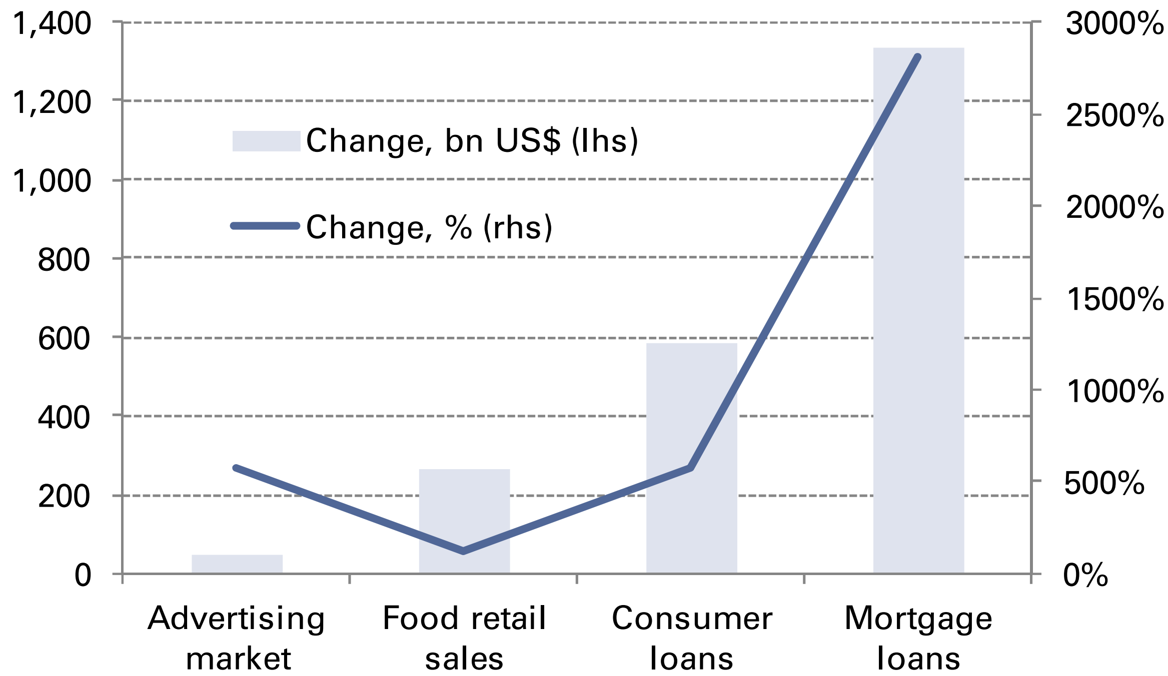
Exhibit 29: Implied Russian consumption by category – higher than global growth rates in healthcare, consumer services and telecoms



Source: Goldman Sachs Research estimates.

We have calculated the approximate size of the revenue opportunity based on Putin's optimistic goal of US$25,000 GDP per capita by 2020 (US$35,000 in PPP) and assume a similarly optimistic demographic trend that the population stabilizes at the current level of 142mn.

Exhibit 30: Incremental revenue growth in the various sectors assuming GS GDP growth forecasts and Putin GDP growth forecasts



Source: Goldman Sachs Research estimates.

We believe the key beneficiaries of substantial increases in disposable income as well as changes in consumer behavior will be the following sectors and companies.

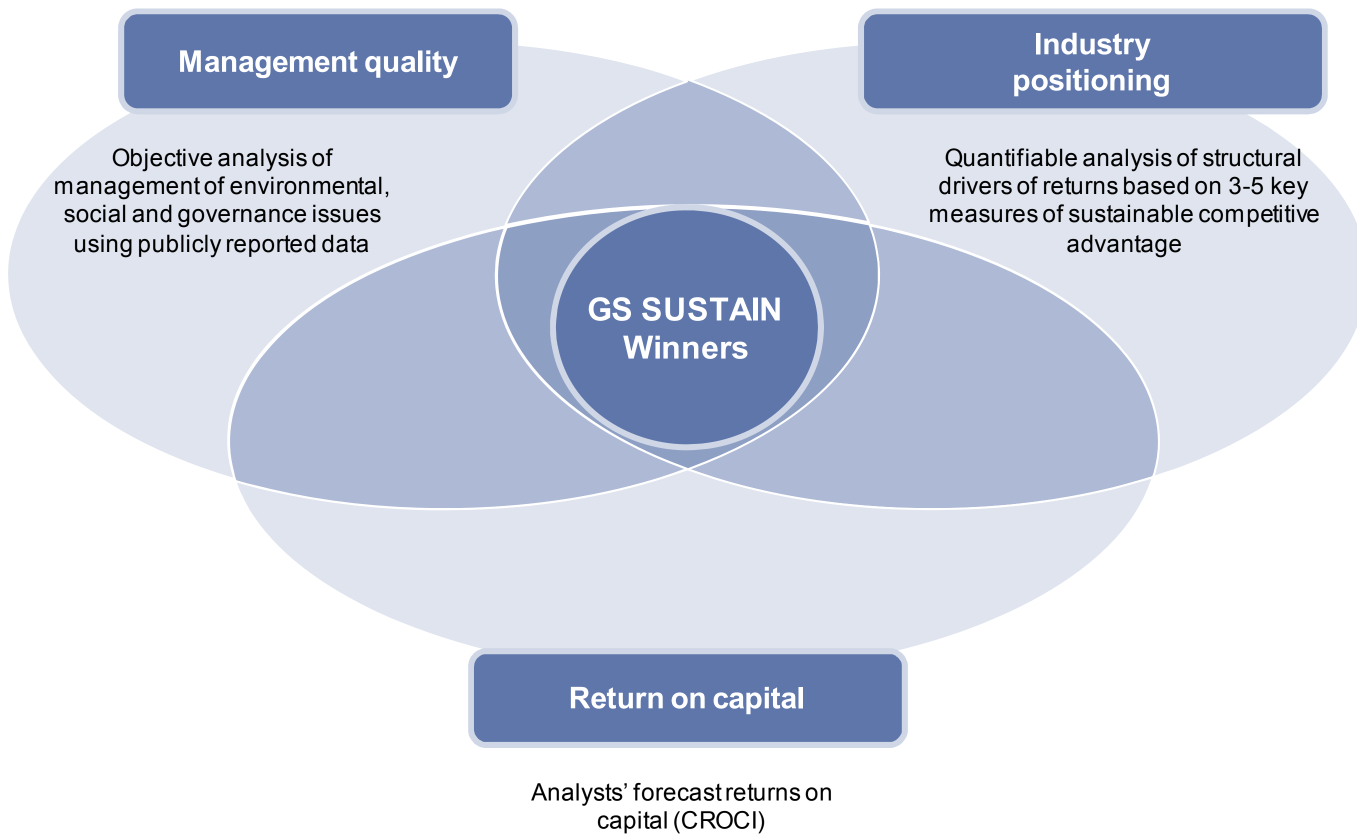
- **Retail and Food producers:** Retail is still one sector where revenue growth rates and industry leading CROCI are sustainable, given both increasing incomes per capita and consolidation potential of the market. **Magnit, M.Video and Cherkizovo** are the Structural Leaders.
- **Internet:** Internet penetration and internet advertising are clear beneficiaries of the shift towards discretionary spending as the economy matures and wealth levels rise. We highlight **Mail.ru**, which is on our Structural Leaders Watch List.
- **Financial services:** We expect an exponential increase in demand for retail financial services and products with the rise of the wealth levels of the population. We highlight **Sberbank** and **Bank Saint Petersburg** on the Structural Leaders Watch List as the stock which can benefit from this theme.

GS SUSTAIN identifies long-term industry leaders

GS SUSTAIN is designed to identify the companies in each sector best placed to take advantage of the structural trends facing their industries, to sustain industry leading cash returns and ultimately to deliver equity market outperformance. The framework applies objective, quantifiable measures to compare companies on three dimensions of corporate performance: cash returns, industry positioning and management quality.

In our analysis of Russian companies, we have adapted the measures applied to global industries to reflect the specific issues facing companies in this country. The analysis applied to each sector, and resultant rankings, are detailed from page 50.

Exhibit 31: The GS SUSTAIN framework combines analysis of the key drivers of corporate performance



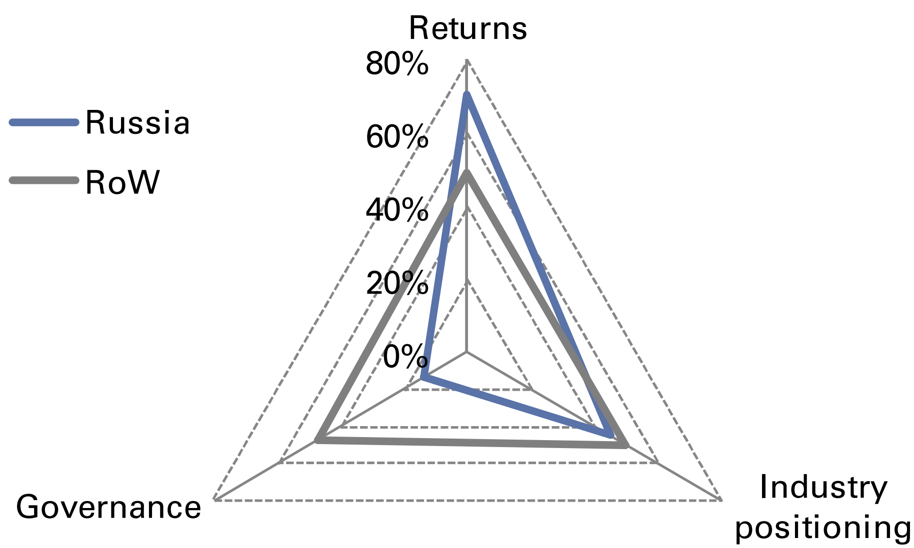
Source: Goldman Sachs Research.

Improving corporate governance and regulatory framework should allow Russian companies to sustain industry leading returns

We believe the Russian market will face transformational changes over the next 10 years that will inevitably lead to a bifurcation of business models, as we have observed almost universally in developed economies. Russian companies have some of the highest returns on capital globally but look average on industry positioning criteria and have the worst corporate governance scores of the large countries we analyze globally. This suggests to us that Russia as a country may have difficulties with maintaining these superior returns unless it undertakes measures to boost corporate governance and improve industry positioning ranking through creating a more transparent regulatory environment. The role of the Russian government here is critical: the sustainability of high returns of the Russian industry relative to global peers is dependent on the government creating and maintaining a fair and transparent regulatory framework and encouraging Russian companies to improve disclosure standards.

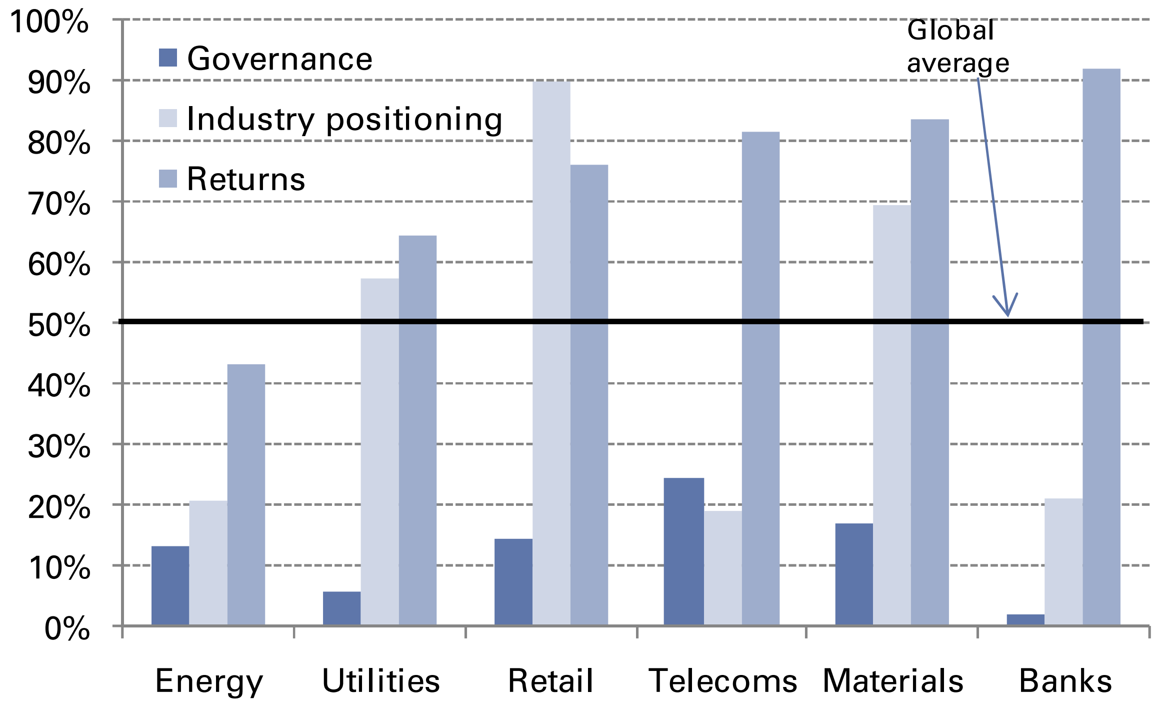
Exhibit 32: Russian companies have some of the worst governance scores globally, screen average on industry positioning and have some of the highest returns globally

Russia vs. the rest of the world on GS SUSTAIN criteria – the analysis is based on 25 Russian companies currently within the GS SUSTAIN framework



Source: Goldman Sachs Research.

Exhibit 33: Russian sectors relative to global peers
Percentile (based on 25 Russian companies under GS SUSTAIN coverage)



Source: Goldman Sachs Research.

High returns on capital in Russia reflect two things in our view: relatively high margins, as markets in Russia still generally tend to be less competitive than globally, and barriers to entry, which include concerns over lack of rule of law and ease of doing business. Natural resource companies tend to be in lower cost percentiles than their global competitors, reflecting mainly the high degree of vertical integration across many extracting businesses.

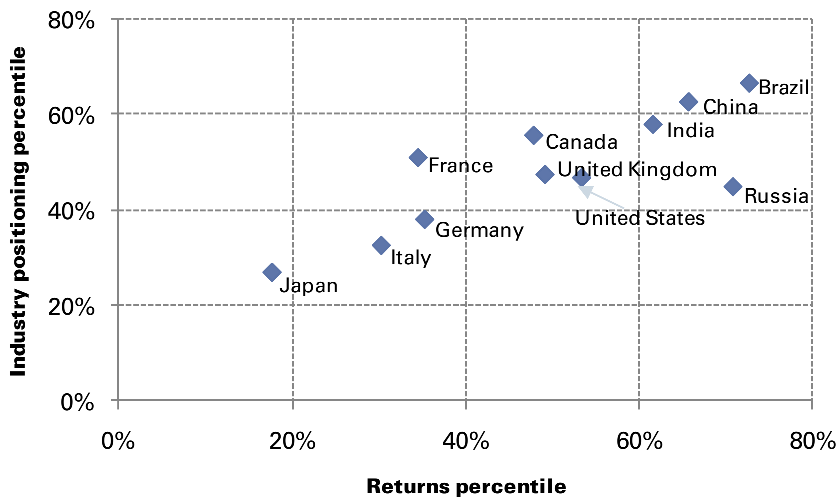
The industry positioning score of Russian companies is close to the global average. Russia's ranking is depressed by the low scores that Russian companies receive on the regulatory framework criteria. We use World Bank Regulatory Stability ranking in order to determine a country's relative positioning and it comes as little surprise to us that the opaqueness and unpredictability of the Russian regulatory environment has a negative impact on Russia's relative industrial positioning.

However, it is corporate governance where Russian companies score extremely poorly relative to their global peers. The biggest problem for Russian companies remains disclosure – most of the governance criteria are simply not disclosed, while ownership and potential abuses of minority shareholder rights remain another significant problem area.

We believe that in the medium term, the operating environment will change dramatically in Russia. We expect it to become more competitive over time, partly driven by efforts to improve local legislation and adherence to international norms, including joining the WTO. However, if the Russian government delivers on an improving regulatory framework as well as the legally binding elements of the governance framework, we believe that Russian companies will be more likely to maintain their first quartile CROCI position for longer and the current valuation discount will prove a great buying opportunity in the long term.

Exhibit 34: Russia – some of the best returns among the peer group, but ranking on industry positioning is average

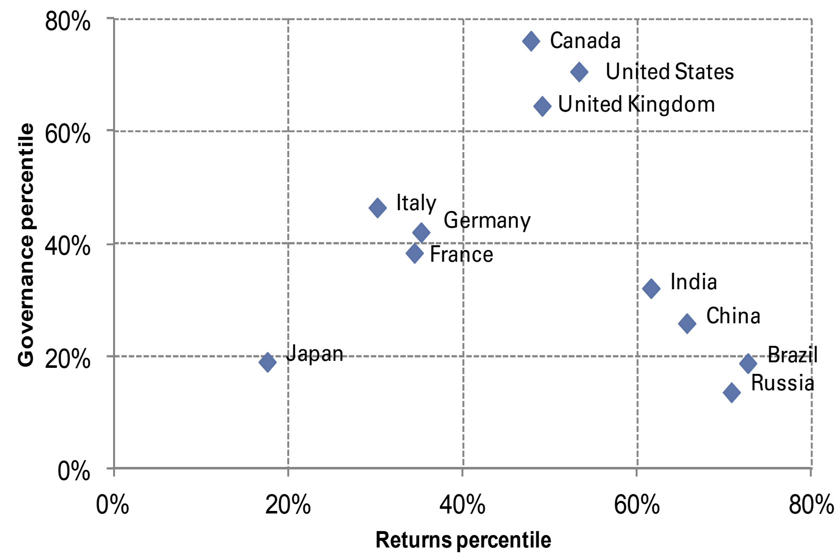
Returns vs. industry positioning – based on 25 Russian companies currently within GS SUSTAIN framework



Source: Goldman Sachs Research.

Exhibit 35: The governance score for Russia is the lowest among the peer group

Returns vs. governance – based on 25 Russian companies currently within GS SUSTAIN framework



Source: Goldman Sachs Research.

CROCI – consistent high returns are key to alpha generation

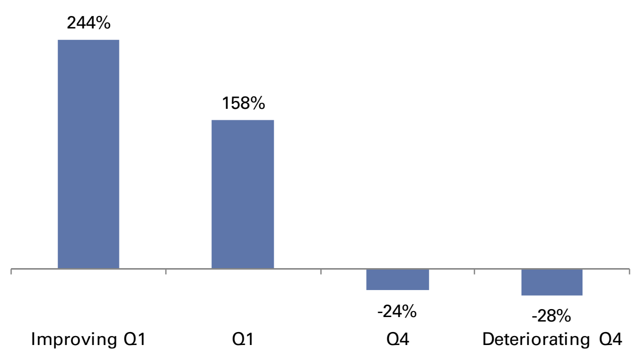
Our GS SUSTAIN analysis has identified industry leading and sustainable cash returns as the key driver of long-term equity market outperformance. The strategy of picking winners based on CROCI has worked in all industries and all geographies. Our analysis suggests that this strategy would have historically worked in Russia as well.

We have backtested performance of over 70 Russian companies over the last five years – for many of them this was the limit of available trading history – and found that companies that have consistently generated first quartile cash returns have significantly outperformed the market.

Our backtests assume that investors bought companies of certain CROCI quartiles in the beginning of 2006 and rebalanced the portfolio every year following changes in CROCI. Our analysis shows that selecting Q1 CROCI resulted in total 158% outperformance relative to the market (GS covered Russian stocks). Moreover, investing in companies with improving returns when they are already Q1 CROCI would have generated an even greater outperformance of 244%. The same is true on the opposite side: Q4 CROCI companies underperformed the market by 24% and Q4 CROCI companies with deteriorating CROCI underperformed by 29%.

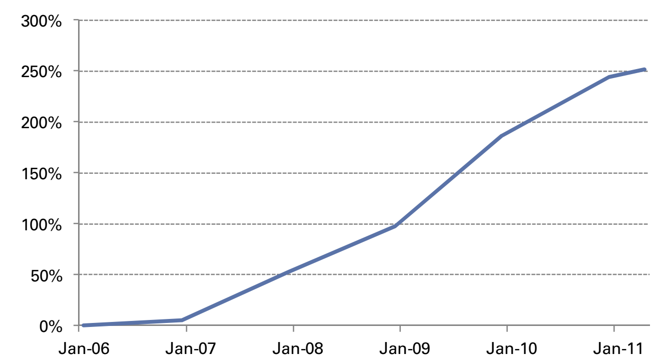
Our analysis also shows that historically Q1 CROCI companies traded at a premium to Q2 and Q3 CROCI companies on a trailing P/E and EV/EBITDA basis. Q4 CROCI companies also trade at a premium, possibly owing to investor expectations of an improvement in future returns.

Exhibit 36: CROCI momentum drives performance
Relative performance since 2006, annual rebalancing



Source: Datastream, Goldman Sachs Research estimates.

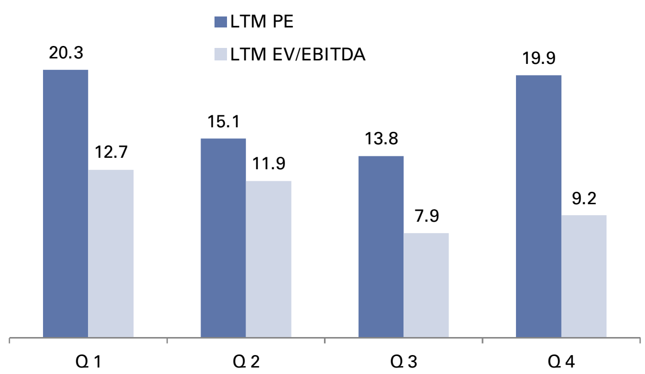
Exhibit 37: Companies with above average CROCI have consistently outperformed
Relative performance, long Q1, Q2, short Q3, Q4



Source: Datastream, Goldman Sachs Research estimates.

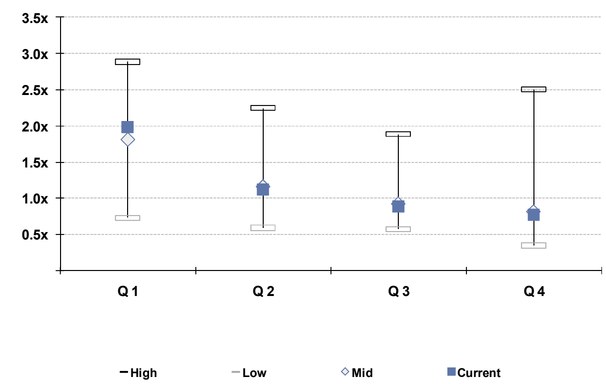
Furthermore, CROCI leading companies historically have traded at a premium under Director's Cut methodology – on EV/GCI of c.2.0x. After market troughed in 2009, Q1 CROCI companies saw the biggest increase in EV/GCI ratios and have already exceeded their historical averages.

Exhibit 38: Market tends to pay for higher CROCI
Average trailing valuations since 2006 by CROCI quartiles



Source: Datastream, Goldman Sachs Research estimates.

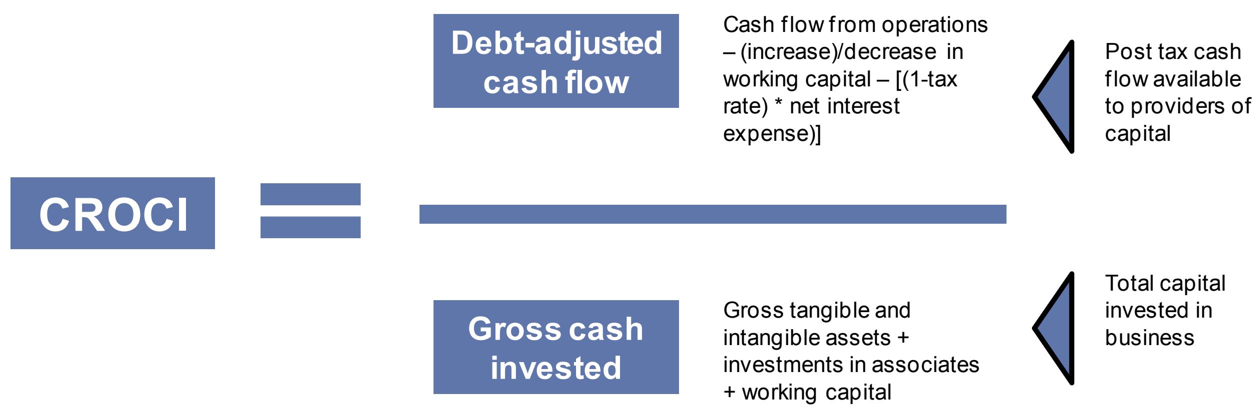
Exhibit 39: Q1 CROCI companies already trade above historical average on EV/GCI
EV/GCI, historical ranges by CROCI quartiles



Source: Datastream, Goldman Sachs Research estimates.

To define Russia Structural Leaders, we rank in percentiles the change in CROCI between 2006 and 2010 and the average forecast CROCI for 2011-13 and take the average. So not only do we take current CROCI into account, but CROCI dynamics as well.

Exhibit 40: Our definition of CROCI



Source: Goldman Sachs Research.

Exhibit 41: Russian companies with Q1 and Q2 CROCI
CROCI, %

Company	Sector	Avg change 2006-10	Avg 2011-13	Quartile
Uralkali	Mining	2.4%	38.3%	1
CTC Media	Media	-3.3%	36.9%	2
Pharmstandard	Consumer	-2.0%	35.0%	2
Raspadskaya	Mining	-1.4%	32.6%	2
Novatek	Energy	0.3%	32.1%	1
Polyus Gold	Mining	8.5%	30.3%	1
Polymetal	Mining	-0.4%	28.7%	2
Eurasia Drilling Company	Oil services	-2.1%	28.2%	2
Veropharm	Consumer	-1.0%	26.2%	2
Mechel	Steel	-0.6%	21.9%	2
Globaltrans	Transport	2.3%	20.3%	1
Sistema JSFC (GDR)	Telecoms	0.4%	20.0%	2
OGK-4	Utilities	1.7%	19.7%	1
Severstal	Steel	-1.0%	17.5%	2
Alliance Oil Company	Energy	0.8%	17.4%	2
Magnit (GDR)	Retail	-0.2%	17.1%	2
OGK-1	Utilities	1.8%	17.1%	2
Cherkizovo Group	Consumer	1.2%	16.1%	2
Rostelecom (Ord)	Telecoms	0.5%	16.1%	2
NCSP	Transport	3.3%	16.1%	1
Inter RAO UES	Utilities	2.0%	15.7%	2
Bashneft	Energy	0.0%	15.6%	2
Razgulay Group	Consumer	4.6%	15.2%	2
MRSK-Holding	Utilities	0.1%	15.1%	2
M-VIDEO	Retail	1.4%	15.0%	2
Rosneft	Energy	1.0%	13.9%	2
OGK-5	Utilities	1.4%	13.8%	2
X5 Retail Group	Retail	1.5%	13.0%	2
OGK-2	Utilities	2.6%	12.6%	2
Average		**0.9%**	**21.3%**	

Source: Goldman Sachs Research estimates.

Industry positioning – the driver of sustainability of returns

Sustainability of high returns depends on the company's e-position within its industry. We use objective measures that, in our view, represent drivers of financial returns at an industry specific level. Together with our sector analysts, we have come up with several characteristics that determine companies' competitive position within their industries. The analysis of industry positioning ultimately helps identify companies where superior cash generation can be maintained in the future. We have somewhat adapted our GS SUSTAIN framework for industry positioning analysis in order to single out criteria that are the most relevant to Russia.

Exhibit 42 summarizes characteristics of the main analysis we use to determine a company's competitive position within its industry. While some of this analysis has looked at companies at the global and regional levels, we have adapted it to reflect Russian idiosyncrasies.

The framework to identify the strength of the industry position of a specific company varies significantly between sectors. For example with retailers, where the market is still in the explosive phase of growth and which is characterized by a high degree of fragmented competitors, we look at the companies' ability to consolidate market share and achieve revenue growth both through increasing market share and same store sales, without sacrificing margins excessively or assuming significant leverage. Our Structural Leader, food retailer Magnit, has consistently demonstrated revenue growth by increasing its market share through its state of the art supply chain management and has, as a result, achieved growth rates substantially above the market and has done this with consistently low leverage.

By contrast our analysis of the industry positioning within the energy sector is based on the companies' exposure to the 330 projects identified by our global energy team, both as a share in the current reserves and of future production. We also look at the upstream/downstream and heavy/light taxation exposure of the companies within the industry and growth potential from brownfield projects. Companies we identify as Structural Leaders, Novatek, Alliance Oil and Rosneft, demonstrate high structural growth rates both through unique exposure to resources, their ability to maintain this access and to generate industry leading growth even in the flat oil price environment.

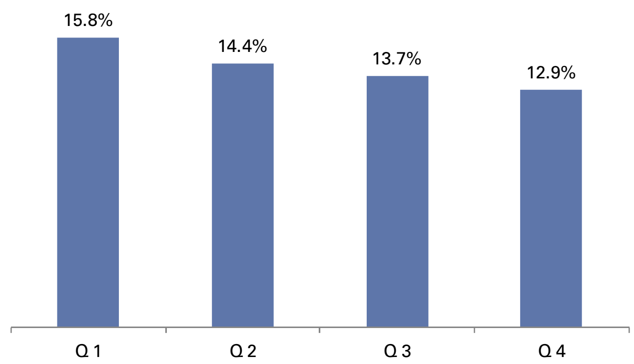
Exhibit 42: Russia specific framework for defining industry positioning

Industry	Russia framework							
	Test 1	Test 2	Test 3	Test 4	Test 5	Test 6	Test 7	Test 8
Consumer	Market share	Revenue growth	Balance sheet strength	3-year EBIT margin progression	Competition			
Energy	TOP 330 prod-n as % of current	Refining complexity (2015 light products yield)	Positioning for potential 60-66 tax	Structural growth	Value of top 330 in current market cap	Potential brownfield production uplift		
Oil-field services and pipe producers	Barriers to entry	Market positioning (attractiveness of key segment of operations of the company)	Ability to expand margins					
Mining	Market consolidation	EBIT margin	EBIT margin 2 year change	Normalized cost position (2013N EBIT margin)				
Steel	Domestic exposure	Degree of vertical integration	Capacity growth	EBIT margin	2-year EBIT margin progression			
TMT	Market share	Revenue growth	3-year forward market share change	EBITDA margin	3-year EBITDA margin progression			
Utilities	Assets efficiency	Regulatory risk	Asset base growth	EBITDA margin	3-year EBITDA margin progression	Reinvestment needs		
Real estate	2010 LTV	Share of yielding properties in portfolio	Exposure to attractive segments					
Financial services	Market share	Tier 1 Capital	Loan growth	Cost/income ratio	ROE	Cost of funding, %	90d+ NPLs coverage	NIM
Construction / Building materials	Market share	Revenue growth	Exposure to Government's infrastructure project	2-year gross margin progression	Gross margin latest			
Automotives	Market share	Investment cycle	Foreign expertise	EBITDA margin	Net Debt/EBITDA	Revenue growth		
Transportation	Market share	EBITDA margin	3-year EBITDA margin change	Net Debt/EBITDA	Competition			

Source: Goldman Sachs Research.

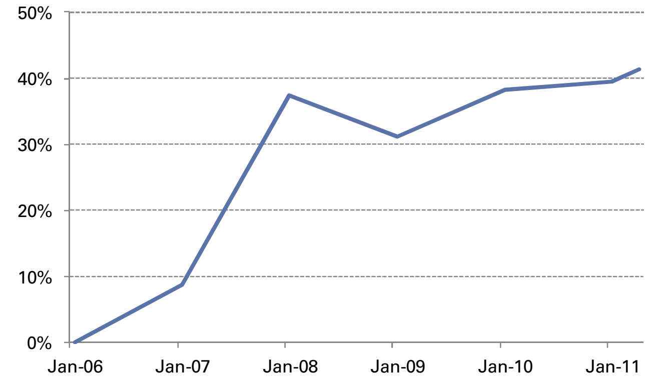
We have backtested performance of industry leaders over the last five years. We believe that in Russia as well, there is a strong correlation between industry positioning and returns – industry leaders tend to generate higher CROCI and also outperform their peers over time (Exhibit 42).

Exhibit 43: Industry leaders tend to generate higher CROCI…
Median CROCI by industry position quartiles



Source: Goldman Sachs Research estimates.

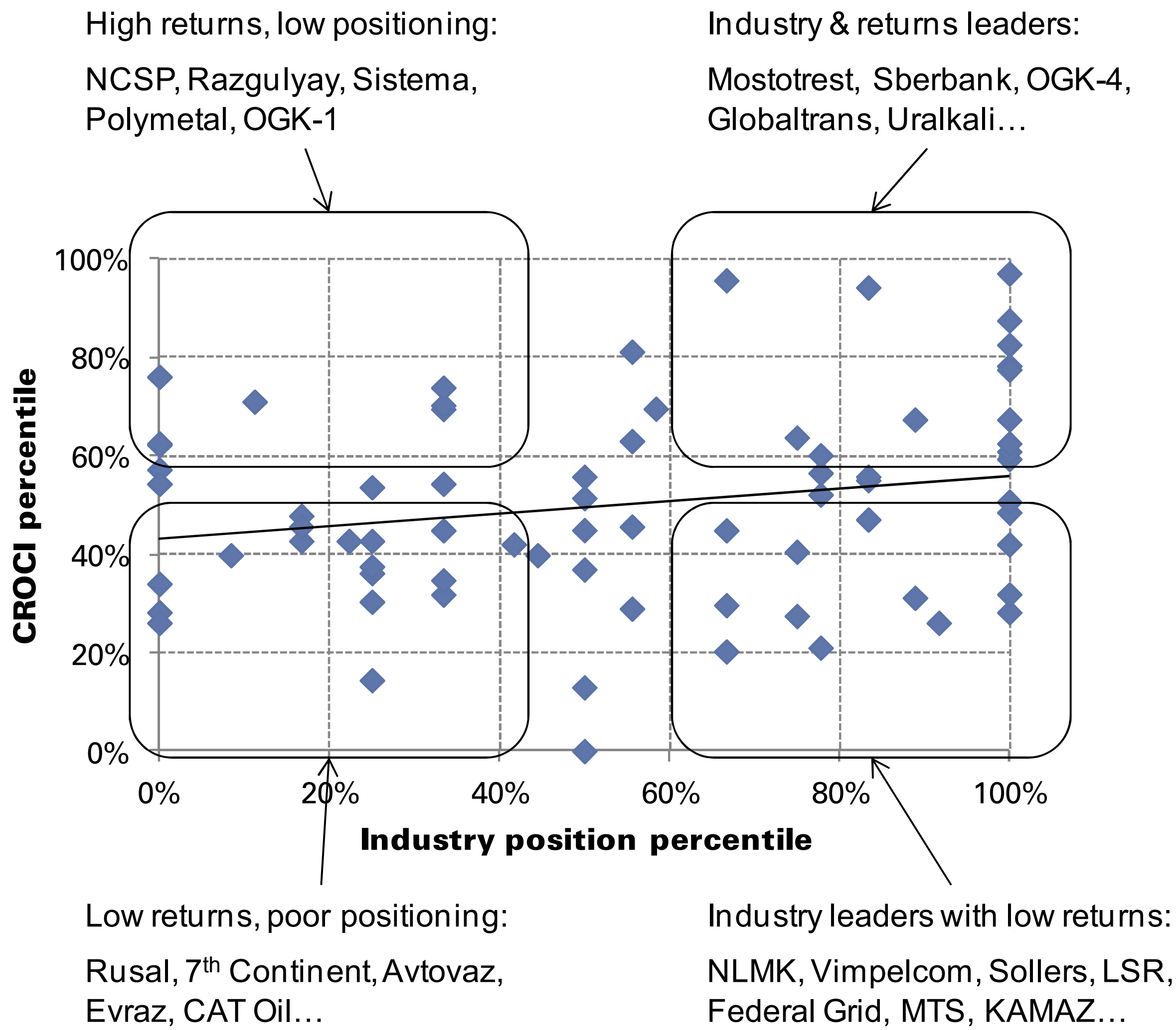
Exhibit 44: …and outperform the market
Relative performance (long Q1 industry positioned companies, short Q2, Q3, Q4)



Source: Datastream, Goldman Sachs Research.

Industry position is an indication of strength of the company's business model: companies with a strong industry position are more likely to sustain high returns, while high returns of poorly positioned companies are more vulnerable. Industry leaders with low returns may use their superior position to improve returns.

Exhibit 45: Industry position provides greater visibility to sustainability of high returns
CROCI percentile (2006-10 change and 2011-13 average) vs. Industry position percentile of Russian companies



Source: Goldman Sachs Research estimates.

Management quality – combining ESG with the ownership issues

Management quality is the third element of the GS SUSTAIN analysis – it assesses management quality through objective, quantifiable analysis of how it copes with the environmental, social and governance (ESG) issues facing their industries. We have adapted this global framework for Russia, mainly reflecting poor disclosure of the ESG components, so we have focused on the importance of corporate governance for Russian companies. We have also introduced a different parameter, relating to ownership. We believe that in Russia the form of ownership – whether the company is privately owned by minority investors or controlled by the government or one/small group of controlling shareholders, is disproportionately important in the way companies respond to ESG challenges. In our final ranking, we have combined companies' ESG scores with their ownership structures, with private companies receiving the highest marks and state owned ones the lowest.

Russia does not screen well against the rest of the world on ESG criteria

ESG is one area where Russian companies show some of the worst results against their global peers – they screen worse than other BRICs companies as well. In our view poor disclosure and lack of attention to corporate governance issues are the key reasons for Russia's poor results. To a certain extent this is an opportunity. Russian companies enjoy some of the highest returns globally and typically have a relative high score on industry positioning. To some extent improvement of the governance score is within the power of the management teams and the majority shareholders of the companies. Our Russia Structural Leaders Watch List reflects exactly such situations – high return companies with good positions within their industries and low governance scores. An improvement in ESG criteria for these companies will lead to a long-term outperformance in our view.

Exhibit 46: Russia has low score relative to the world on the main ESG criteria
Composition and description of ESG framework

Are management working for shareholders:

Is the executive team supervised by an independent board, are key committees and auditor independent, is executive compensation fair and aligned with investors' interests, can minorities exercise their rights?

Is the firm mitigating environmental impact

Does the company measure, disclose and target reductions in its consumption and emission of environmental commodities and waste, and remediating impact

Is CSR part of corporate DNA or a PR expertise:

How long have they been CSR reporting, is there external assurance, are the board and executives responsible for CSR reporting and is compensation tied to progress

Is the firm engaged with key stakeholders

Is company proactively engaged with suppliers, regulators, customers, society to mitigate the associated risks and have policies for responsible marketing, elimination of human rights abuse and corruption etc.?

Are employees treated as a valuable asset:

Is compensation set favourably vs peers, are staff productive, can the firm attract diverse pool of talent, does the firm invest in development and retention, are employees provided adequate H&S at work?

Source: Goldman Sachs Research.

ESG scores – governance is the key investing parameter in Russia

We have looked at ESG factors across Russia, comparing companies in various industries with each other. Typically, GS SUSTAIN analyzes ESG within the industry given that each sector faces different challenges, particularly as regards environmental analysis. However, given a very poor level of disclosure on environmental metrics even by the mining or energy companies in Russia, we have decided to focus our analysis predominantly on the governance part of the ESG framework. We believe that as far as governance issues are concerned, it is not only possible but necessary to compare various companies across the sectors and within the country context.

We have ranked companies in our Russian coverage on the key governance parameters (Exhibit 47). Conceptually they fall into four categories:

- **Composition and running of the board:** including separation of the CEO and Chairman positions, existence of independent board members and transparency of the audit committee. In other words we look at whether a company possesses a system of proper checks and balances.
- **Compensation issues:** We look at share based compensation, disclosure of the CEO's salary and the general concept is that companies should design a system of incentives that is aligned with minority investors' interests.
- **Minority shareholders' rights:** We check to what extent minority shareholders' rights can be infringed upon through unequal voting rights or restrictions as well as the availability of a listing outside of Russia.
- **Transparency:** We highlight the importance of regular and transparent reporting and rank companies on the availability of international accounts and quarterly reporting.

Exhibit 47: Key criteria for the GS Russia Structural Leaders governance scoring system

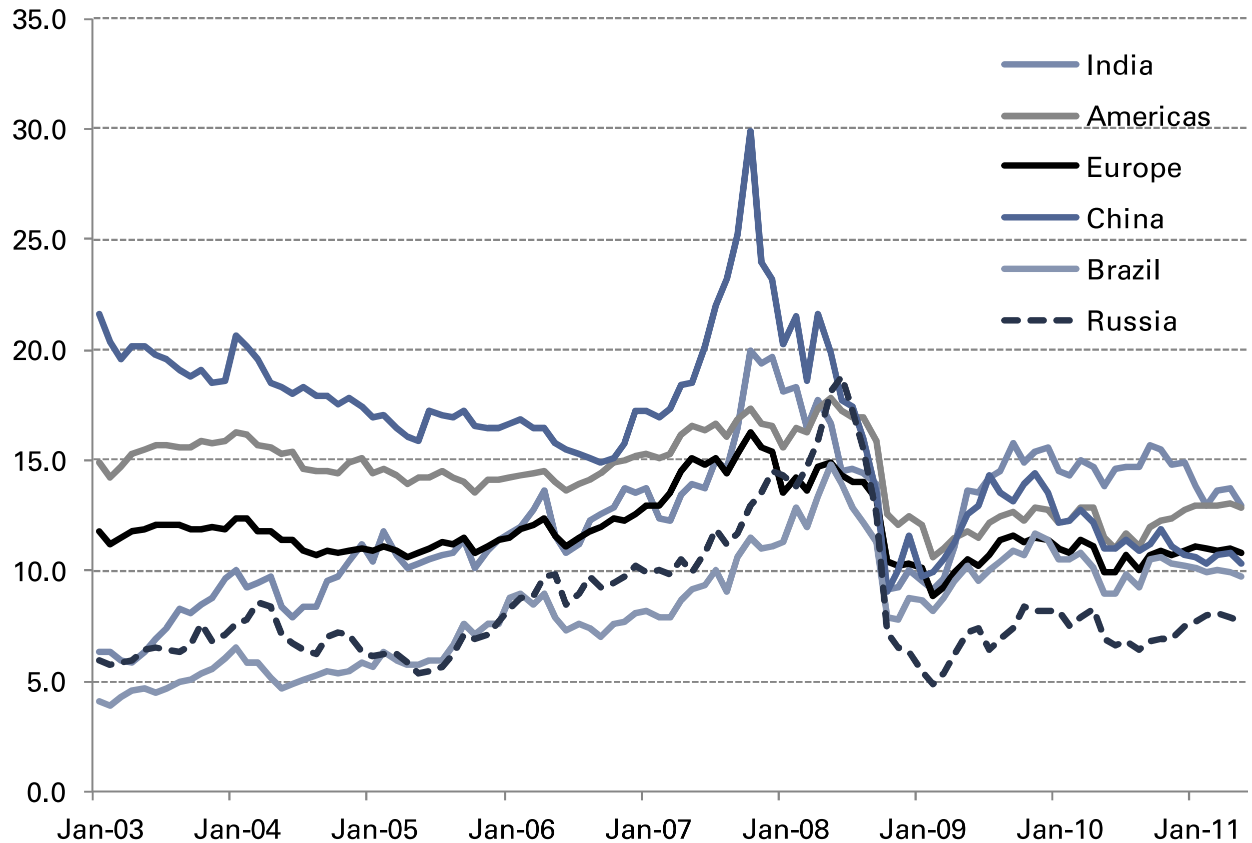
Indicators	Criteria
Independent board leader	Are CEO and chairman positions held by different individuals? Does the lead director position exist?
Independence of board of directors	What is the percentage of independent directors on the board? Are the nomination and compensation committees fully independent?
Independence of audit process	Is the audit committee fully independent? Does the company disclose audit and non-audit fees? The smaller the non-audit fees in relation to audit fees, the better
CEO compensation	Does the company disclose CEO compensation? The smaller the CEO compensation as a % of DACF, the better
Share based compensation	Does the company disclose share based compensation of employees? It is better when share based compensation as a % of DACF falls into 33-67 percentiles, i.e. near to the market average
Minority shareholders' rights	What's the total size of shareholdings of more than 5%? Are minority shareholders protected, are there staggered boards, poison pills, unequal voting rights, restrictions on voting rights? Does the company have an IR function? Does the company have a listing outside of Russia?
Reporting quality	Does the company report financial results according to IFRS or US GAAP? Does the company report quarterly financial results? How many months does it take to report the previous quarter's results?

Source: Goldman Sachs Research.

Why are we so focused on governance?

We believe that governance issues are disproportionately important as an investment parameter, particularly in Russia. In almost any of the numerous investment meetings we have held over the last many years, the question of corporate governance is almost always among the first to be asked. Partly it is the rich legacy of corporate conflicts, which include both the government's interference into public companies as well as conflicts between partners, that tend to have a detrimental impact on individual stocks' and the market's performance. In short, we believe that subpar corporate governance is one of the key reasons for the Russia discount both to the other BRICs and to the developed markets.

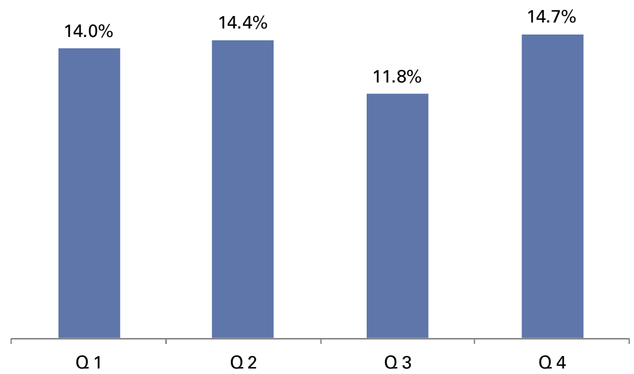
Exhibit 48: Russian equities have traded at a consistent discount, with the exception of a brief period in the beginning of 2008
P/E of Russia vs. BRICs and main developed markets since 2003



Source: Factset, Goldman Sachs Research estimates.

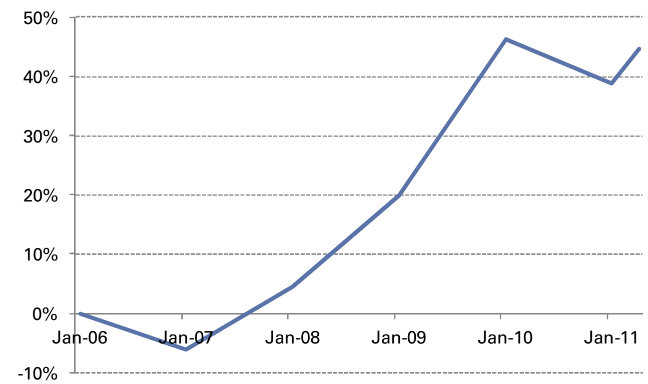
We believe that there is a strong correlation between a stock's performance and corporate governance in Russia. We have backtested performance of ESG leaders over the last five years. While ESG leadership does not necessarily lead to higher returns generation, we have found a very strong correlation between high ESG scores and share price performance – ESG leaders tend to substantially outperform the Russian equity market.

Exhibit 49: Although ESG score hardly correlates with CROCI…
Current average CROCI by ESG quartiles



Source: Goldman Sachs Research estimates.

Exhibit 50: …companies with above average ESG score outperformed historically
Relative performance (long Q1 and Q2 and short Q3 and Q4)



Source: Datastream, Goldman Sachs Research estimates.

The government is getting on the same page as investors

In our view the government – at least conceptually – understands the critical issues on governance and transparency, especially in light of the vast investment requirements in the infrastructure sector and ongoing modernization of the economy, which will be achieved at least to some extent through a vast government privatization program. There were at least two government initiatives aimed at improving overall investment climate through focusing on governance and transparency. The first is the creation of the Moscow International Financial Centre, where the two major priorities identified by President Medvedev are the adoption of IFRS accounting standards by all Russian companies – in other words, increasing transparency – and a step change in Moscow's infrastructure.

The second initiative is a combined Putin/Medvedev 10 point plan on improving the investment climate in Russia, which was made public in April 2011. The plan focuses on the following issues.

- **Legal framework** – with points such as making the laws and decisions of state departments more predictable and the removal of decisions detrimental to investment activity on the recommendation of the Ministry of Economic Development, to which it can apply through the Ministry of Justice.
- **Enforcement** – which includes measures such as creating an effective mechanism of monitoring, introducing the position of investment ombudsman in each of the federal districts, special representatives of the government should oversee the activities of all agencies dealing with the investment infrastructure.

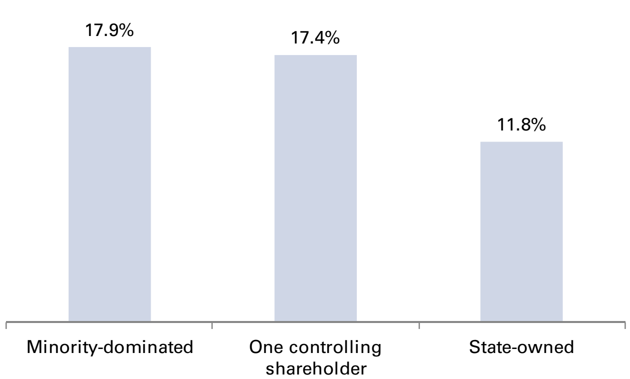
- **Government participation** – perhaps most controversially the plan called for removal of government ministers from the boards of directors of state owned companies. Moreover the plan calls for a stop on all government involvement in direct investment in companies, which will be done through a special Russian Direct Investment fund.

Ownership is a key differentiating factor in Russia

Within a Russian context, we believe the form of ownership has emerged as a key differentiating factor of stocks performance. We have divided companies into three broad categories – state owned, minority owned and dominant shareholder owned, (whether there is one shareholder or aligned interests). We have found a strong correlation between the form of ownership of companies in Russia and their returns and performance – minority dominated companies have outperformed the market by close to 40%, one or a group of controlling shareholders outperformed the market by 10% over the last five years, but state owned companies have underperformed by 23%. It is also not surprising that privately owned companies are substantially more cash generative than state owned ones.

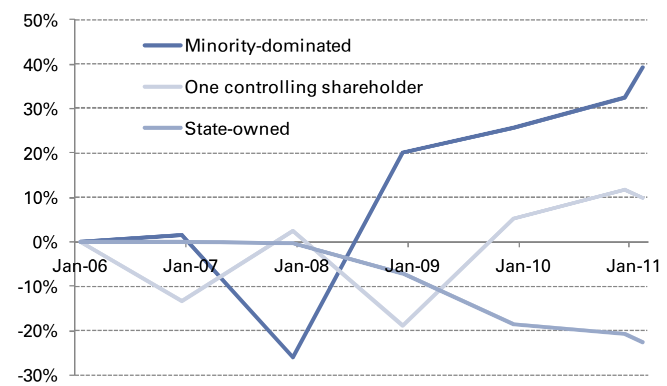
Ultimately, this proves that the market is much more comfortable with the minority dominated companies, precisely because of the perception of higher corporate governance standards. It is also interesting that the market does not particularly trust the Russian oligarchs either, with oligarch owned companies still substantially underperforming minority owned stocks.

Exhibit 51: Privately owned companies generate higher cash returns…
Average CROCI



Source: Goldman Sachs Research estimates.

Exhibit 52: …and outperform the market in long term
Annual average relative performance



Source: Datastream, Goldman Sachs Research.

Combining ownership with governance

In our view, the real key to sustainable alpha generation is the combination of the 'right ownership' and high ESG scores – our backtests suggest that Q1 and Q2 management (ESG + ownership) companies have consistently outperformed the market especially in the post crisis period. It seems that the market has become much more discriminating with regards to both corporate governance and ownership after a tremendous loss of value in 2008-09, which in many instances happened owing to a lack of transparency.

Moreover, we believe that the combination of ownership and governance provides visibility on the sustainability of high or low returns: Exhibit 55 illustrates that companies with Q1 management generated Q1 CROCI on average for more than two years since 2006, while Q4 management companies earned Q4 CROCI for more than two years during that period.

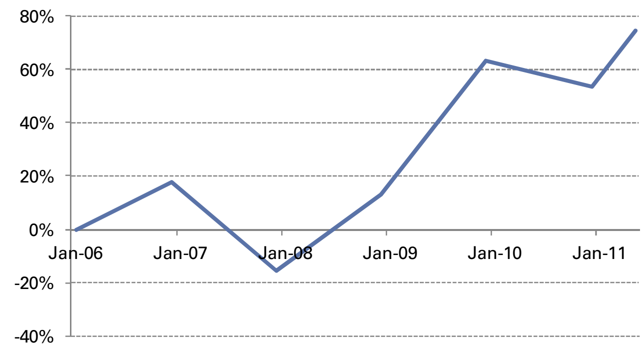
From a calculation standpoint, we derive management score as a sum of the scores for governance and ownership structure. The governance score is a modified version of the governance part of ESG analysis; ownership score is "+3" if the company is dominated by minorities, "0" if it is controlled by one shareholder and "-3" if it is a state owned company.

Exhibit 53: Russian companies with the highest governance and ownership rankings
Management quartile, Management score (governance + shareholder structure) and Ownership structure

Company	Quartile	Management score	Ownership
Petropavlovsk PLC	1	29	Pavel Maslovsky and Partners 18%
CTC Media	1	27	MTG 38%, Alfa Group 25%
Raven Russia	1	26	Invesco Perpetual 21.8%, Schroder Investment 14.3%, Mackenzie Financial Corp 11.1%
VimpelCom Ltd.	1	26	Altimo 39.19%, Telenor 39.58%
Integra Group	1	25	N/A
Magnit (GDR)	1	23	Sergei Galitskiy 41%
Alliance Oil Company	1	23	Alliance Capital and Alliance Group 44%
Lukoil	1	22	Alekperov 20.6%, Fedun 9.7%
IBS Group	2	18	Founders and managers 65%

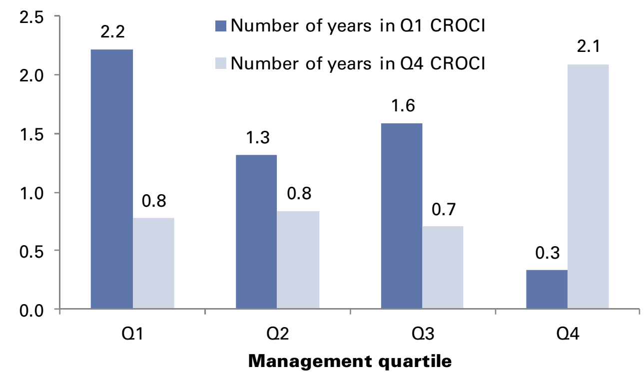
Source: Company data, Goldman Sachs Research.

Exhibit 54: Combination of high ESG score and minority ownership is a key to alpha generation in Russia…
Relative performance (Q1 and Q2 management score vs. Q3 and Q4)



Source: Goldman Sachs Research estimates.

Exhibit 55: ..and to sustaining high returns
Average number of years the companies in the given management quartile earn Q1 and Q4 CROCI since 2006



Source: Goldman Sachs Research.

Exhibit 56: Corporate governance and ownership structure of Russian companies
Aggregate management quality quartile, ESG score and structure of ownership category

Company	Mangement Quartile	ESG + Shareholder structure score	Category	Ownership
Automotives				
Sollers	2	17	One dominating shareholder	Vadim Shvetsov 58%
Avtovaz	4	9	State-owned	Rostechnology 25%, Renault 25%, Troika Dialog 25%
KAMAZ	4	10	State-owned	Rostechnology 49.9%, Daimler 11%, Troika Dialog 22.2%
Construction and building materials				
Mostotrest	4	13	One dominating shareholder	Marc O'Polo Investments Ltd 38.9% (Arkady Rotenberg 68.5%, N-Trans Group owners 31.5%), Non-State Pension Fund Blagosostoyanie 26.5%
Consumer				
Pharmstandard	3	15	One dominating shareholder	Augment Investments Limited 54.3%
Razgulay Group	3	15	Minority controlled	Avangard AM 23%, Igor Potapenko 19%
Cherkizovo Group	2	18	One dominating shareholder	Babaev family 60%
Veropharm	2	17	One dominating shareholder	Pharmacy Chain 36.6 52%, Troika Dialog 25%
Magnit (GDR)	1	23	Minority controlled	Sergei Galitskiy 41%
X5 Retail Group	1	24	One dominating shareholder	Alfa Group 48%, Former Pyaterochka owners 20%
Dixy Group	3	16	One dominating shareholder	Mercury Group 61.09%
M-VIDEO	2	20	One dominating shareholder	Svece Ltd 70%
Seventh Continent	3	14	One dominating shareholder	Alexander Zanadvorov 74.8%
O'key Group	3	16	One dominating shareholder	Brookvalley Ltd 56.2% (Dmitrii Troitckii, Dmitriy Korzhev), Caraden Ltd 22.3% (Boris Volchek), Barleypark Ltd 7.3% (Hillar Teder)
Energy				
Alliance Oil Company	1	23	Minority controlled	Alliance Capital and Alliance Group 44%
Lukoil	1	22	Minority controlled	Alekperov 20.6%, Fedun 9.7%
Bashneft	2	19	One dominating shareholder	Sistema 72.9%
Novatek	1	24	One dominating shareholder	Mikhelson 27.17%, Volga Resources (Timchenko) 23.49%
TNK-BP Holding (Ord)	3	16	One dominating shareholder	TNK-BP International (AAR and BP) 95%
Surgutneftegaz (Ord)	2	17	One dominating shareholder	
Rosneft	2	18	State-owned	Rosneftegas 75%
Tatneft (Ord)	3	15	State-owned	Sviazinvestneftekhim 33.6%. Government of tatarstan owns one golden share
Gazprom (ADR)	4	13	State-owned	Rosneftegas 51%, VEB 3%
Gazprom Neft	4	13	State-owned	Gazprom 96%

Source: Company data, Goldman Sachs Research.

Exhibit 56 cont'd: Corporate governance and ownership structure of Russian companies

Company	Mangement Quartile	ESG + Shareholder structure score	Category	Ownership
Financials				
Vozrozhdenie Bank	2	19	One dominating shareholder	Dmitriy Orlov 35.55%, Otar Margania 19.67%, Nikolai Orlov 4.59%
Bank Saint Petersburg	3	15	One dominating shareholder	A. Savelyev 35.2%, Systemnye technologii 15.7%, U. Pilipenko 8%, V. Reutov 6.4%
MDM-Bank	2	19	One dominating shareholder	Sergei Popov 56.3%, Igor Kim 11%
Sberbank	4	13	State-owned	Central Bank of Russia 57.6% (60.3% voting)
JSC VTB Bank	3	14	State-owned	Rosimushestvo 75.5%
Mining				
Petropavlovsk PLC	1	29	Minority controlled	Pavel Maslovsky and Partners 18%
Polyus Gold	2	18	One dominating shareholder	Nafta Moskva 37%, Onexim 35%
Uralkali	3	15	One dominating shareholder	Nafta Moscow 25%, IST Group 15%, Filaret Galchev 15%
Polymetal	2	19	One dominating shareholder	PPF 20%, IST Group 19%, Alexander Mamut 15%
Raspadskaya	3	15	One dominating shareholder	Corber Enterprises (Evraz 50%, Raspadskaya management) 80%
Norilsk Nickel	3	15	One dominating shareholder	Interros 25%, Rusal 25%
United Company Rusal	1	23	One dominating shareholder	EN+ 47%
Oil services and Pipe producers				
Integra Group	1	25	Minority controlled	
Eurasia Drilling Company	1	26	One dominating shareholder	Alexander Djaparidze 37%, Alexander Putilov 24.48%
C.A.T oil AG	1	22	One dominating shareholder	CAT Holding 60%
TMK	1	23	One dominating shareholder	Dmitri Pumpyansky 70%
ChelPipe	3	15	One dominating shareholder	Mountrise Ltd (A. Komarov, A. Fedorov - shares n/a) 76%
Real estate				
Raven Russia	1	26	Minority controlled	Invesco Perpetual 21.8%, Schroder Investment 14.3%, Mackenzie Financial Corp 11.1%
LSR Group	2	21	One dominating shareholder	Andrei Molchanov 62%
PIK Group	2	18	One dominating shareholder	Suleiman Kerimov 45%, Kirill Pisarev & Yuri Zhukov 33%
AFI Development PLC	1	22	One dominating shareholder	Africa-Israel 64%
Steel				
Mechel	1	23	One dominating shareholder	Igor Zyuzin 67%
Novolipetsk Steel	2	17	One dominating shareholder	Vladimir Lisin 83%
Severstal	2	20	One dominating shareholder	Alexei Mordashov 82%
Magnitogorsk Steel	2	18	One dominating shareholder	Victor Rashnikov 87%
Evraz Group	1	22	One dominating shareholder	Lanebrook Ltd (Millhouse 50%) 72%

Source: Company data, Goldman Sachs Research..

Exhibit 56 cont'd: Corporate governance and ownership structure of Russian companies

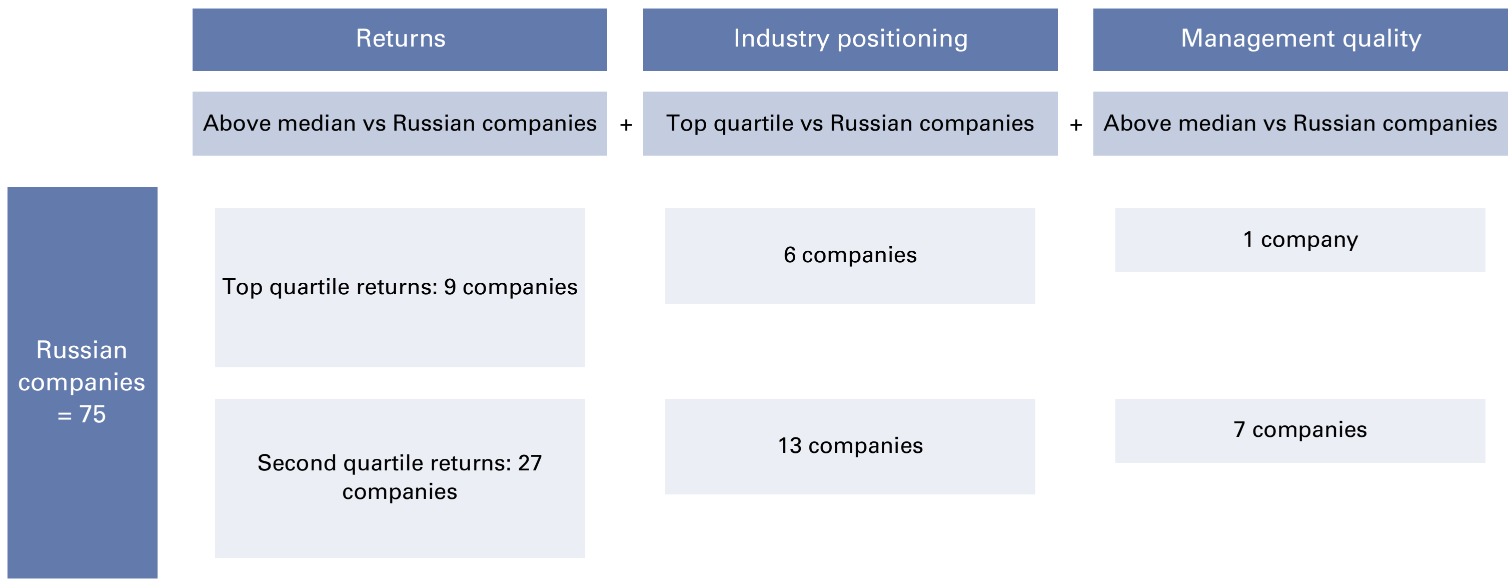
Company	Mangement Quartile	ESG + Shareholder structure score	Category	Ownership
TMT				
CTC Media	1	27	Minority controlled	MTG 38%, Alfa Group 25%
IBS Group	2	18	Minority controlled	Founders and managers 65%
VimpelCom Ltd.	1	26	Minority controlled	Altimo 39.19%, Telenor 39.58%
Sistema JSFC (GDR)	2	21	One dominating shareholder	Vladimir Evtushenkov 64.18%
Mobile Telesystems	1	25	One dominating shareholder	Sistema 51%
Mail.ru Group Ltd.	3	16	One dominating shareholder	MIH (Naspers Group) 30.8%, NMT & Ardoe Finance (Alisher Usmanov)26.9%, Founders 10.3%, Tencent Ltd 8.3%
Rostelecom (Ord)	2	17	State-owned	Svyazinvest 42.775%
Transportation				
Globaltrans	3	16	One dominating shareholder	N-Trans 50.1% (Konstantin Nikolaev, Nikita Mishin, Andrei Filatov), Envesta Investment Ltd 14.85% (Segei Maltsev 51%, Alexander Eliseev 49%)
FESCO	4	12	One dominating shareholder	Industrial investors 55.81%
NCSP	3	15	State-owned	Novoport Holding (Transneft 50%, Summa Capital 50%) 50%, Rosimuschestvo 20%
Aeroflot	4	11	State-owned	Rosimushestvo 51%, Alexander Lebedev 19.2%
Utilities				
OGK-4	4	13	One dominating shareholder	E.ON 78%, Federal Grid 3%
OGK-3	4	12	One dominating shareholder	Norilsk Nickel 80%
Transneft (Pref)	4	11	State-owned	Rosimuschestvo 79% (100% in common equity)
Inter RAO UES	4	12	State-owned	Rosatom group 57%, Gazpromenergoholding 8.3%
MOESK	4	10	State-owned	MRSK-Holding 50.9%, companies affilated with Gapzom 26%, Moscow Government 5%
OGK-1	4	13	State-owned	Federal Grid 30%, HYDR 16% (under IRAO management), Inter RAO 30%
TGK-1	4	13	State-owned	52% Gapzromenergoholding, 25.6% Fortum, 1.3% now FEES transfering to IRAO
OGK-5	4	12	State-owned	Rosimuschestvo 26.43%
OGK-2	3	15	State-owned	Federal Grid 3%, Gazprom 62%
MRSK-Holding	4	11	State-owned	Rosimuschestvo 55%, Gazprombank 11%
RusHydro	4	13	State-owned	Rosimuschestvo 58%, SUEK 5%
Federal Grid Company	4	12	State-owned	Rosimuschestvo 79%
OGK-6	4	13	State-owned	Gazprom 60%, Federal Grid 13%
Mosenergo	4	13	State-owned	Gazprom 53%, Moscow Government 26.5%, Federal Grid 5%

Source: Company data, Goldman Sachs Research.

Russia Structural Leaders List

We have identified the list of Russian Structural Leaders through applying modified GS SUSTAIN methodology to the list of 75 Russian companies. We believe these companies will demonstrate better performance in the long term on the back of country-leading returns, superior industry position and high management quality. The list contains eight companies – five in the natural resource space – Mechel, Novatek, Rosneft, Alliance Oil and EDCL and three in the consumer segment – Magnit, M-Video and Cherkizovo. We believe that one of the main reasons for the skew towards select natural resources companies in our list is transparency – the level of disclosure at these companies was ultimately the main differentiating factor. Interestingly, out of 19 Russian companies with top quartile CROCI and industry positioning, the majority could not show superior governance track record. Although not included in the structural leaders highlighted in this report, Novolipetsk Steel is included in the GS SUSTAIN Global Focus List. Although the company's cash returns are below the average of its Russian peers, it remains in the first quartile of cash returns relative to the global steel industry and benefits from strong industry positioning and management quality in the analysis applied to that global sector

Exhibit 57: Identifying Russian Structural Leaders – the framework



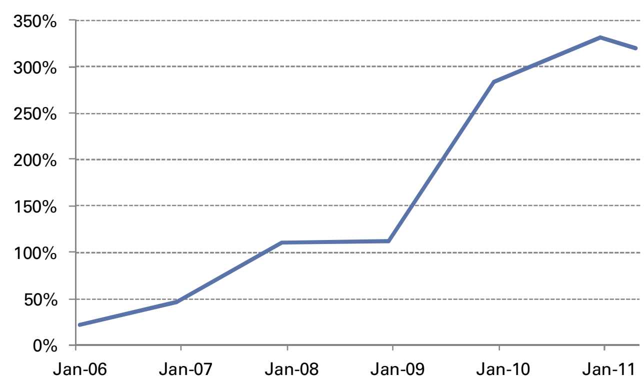
Source: Goldman Sachs Research.

Exhibit 58: Russia Structural Leaders

Company	Sector	CROCI average 2011-13E, %	CROCI change 2006-10, %	CROCI quartile	Industry position quartile	Management quality quartile
Novatek	Energy	32.1%	0.3%	1	1	1
Eurasia Drilling Company	Oil Services and Pipe producers	28.2%	-2.1%	2	1	1
Mechel	Steel	21.9%	-0.6%	2	1	1
Alliance Oil Company	Energy	17.4%	0.8%	2	1	1
Magnit (GDR)	Consumer	17.1%	-0.2%	2	1	1
Cherkizovo Group	Consumer	16.1%	1.2%	2	1	2
M-VIDEO	Consumer	15.0%	1.4%	2	1	2
Rosneft	Energy	13.9%	1.0%	2	1	2

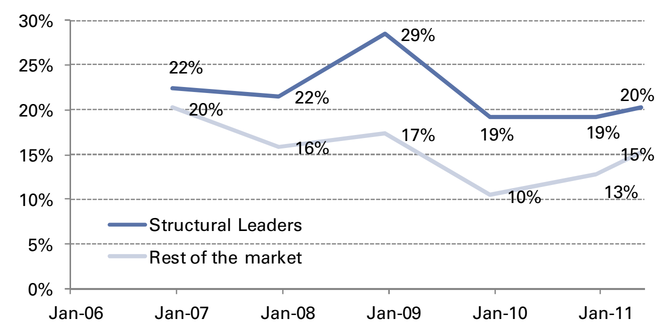
Source: Datastream, Goldman Sachs Research estimates.

Exhibit 59: Historically current Russia Structural Leaders have outperformed the market…
Relative performance vs MSCI Russia, cumulative %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 60: …and generated higher cash returns
Historical average CROCI of current Russia Structural Leaders and the rest of GS Russia coverage, %



Source: Goldman Sachs Research estimates.

Russia Structural Leaders Watch List

In addition to the Russian Structural Leaders list we have also compiled the Watch List – the companies that have top quartile returns and industry positioning but that lag on the governance side. However, we still only include companies that are at least in the third quartile on the ESG criteria. This segment is more representative of the Russian GDP composition with a diverse list of companies from a number of sectors (Exhibit 61).

Exhibit 61: Russia Structural Leaders Watch List composition

Company	Sector	CROCI average 2011-13E, %	CROCI change 2006-10, %	CROCI quartile	Industry position quartile	Management quality quartile
Uralkali	Mining	38.3%	2.4%	1	1	3
Globaltrans	Transport	20.3%	2.3%	1	1	3
ChelPipe	Oil Services and Pipe producers	18.0%	-1.3%	2	1	3
Mail.ru Group Ltd.	TMT	11.2%	3.0%	2	1	3
Raspadskaya	Mining	32.6%	-1.4%	2	1	3
Bank Saint Petersburg	Banks	19.2%	-2.2%	2	1	3
Pharmstandard	Consumer	35.0%	-2.0%	2	2	3
Sberbank	Banks	23.1%	-1.9%	1	1	4
Mostotrest	Construction	33.9%	6.3%	1	1	4
OGK-4	Utilities	19.7%	1.7%	1	1	4

Source: Goldman Sachs Research estimates.

Using and interpreting our industry pages

Exhibit 62: Our sector pages contain details of scoring and results of backtests within each industry

Notes on returns, industry positioning and management score

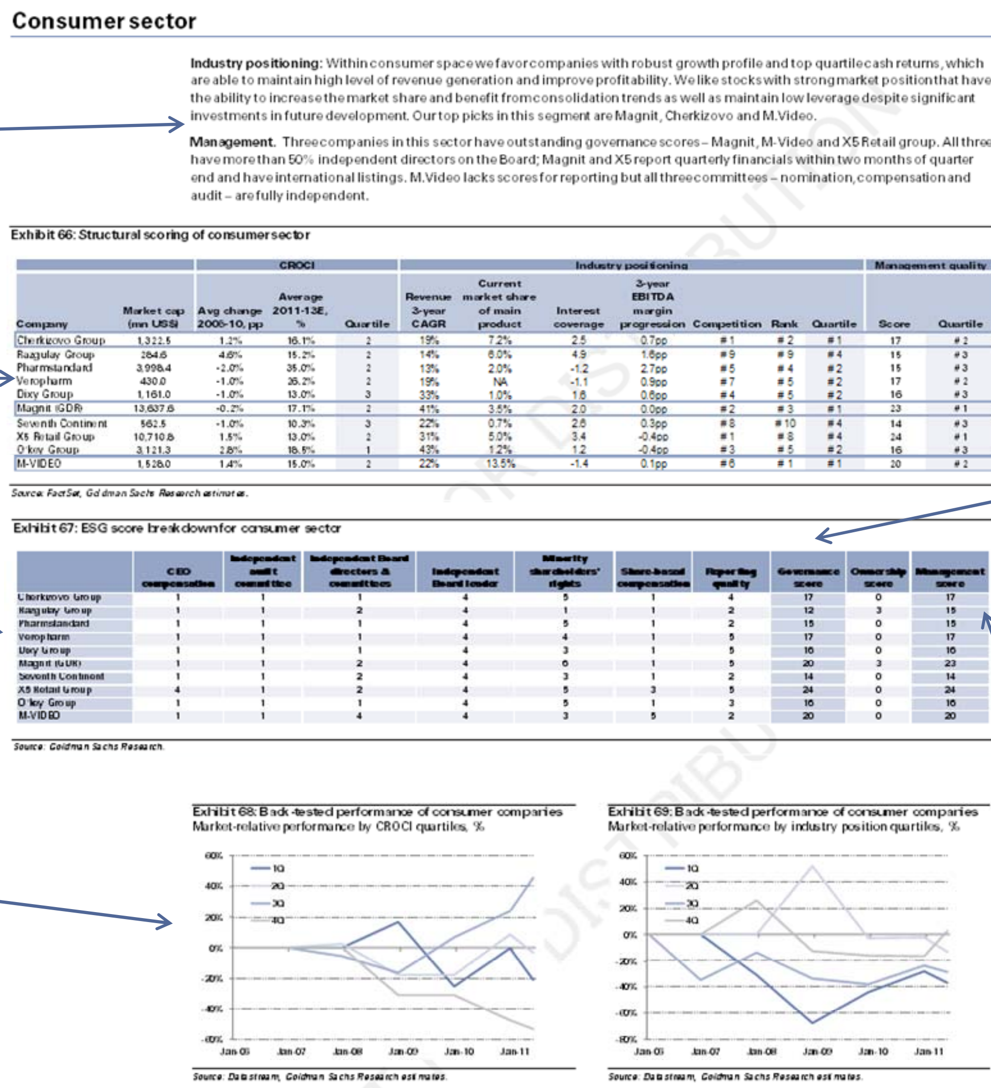
Detailed summary of returns, industry position and management score

Governance score breakdown, ownership and management scores

Results of back-tests of performance by CROCI and industry position quartiles

Governance score is based on 2009 data

Governance + Ownership = Management score



Consumer sector

Industry positioning: Within consumer space we favor companies with robust growth profile and top quartile cash returns, which are able to maintain high level of revenue generation and improve profitability. We like stocks with strong market position that have the ability to increase the market share and benefit from consolidation trends as well as maintain low leverage despite significant investments in future development. Our top picks in this segment are Magnit, Cherkizovo and M.Video.

Management. Three companies in this sector have outstanding governance scores – Magnit, M-Video and X5 Retail group. All three have more than 50% independent directors on the Board; Magnit and X5 report quarterly financials within two months of quarter end and have international listings. M.Video lacks scores for reporting but all three committees – nomination, compensation and audit – are fully independent.

Exhibit 66: Structural scoring of consumer sector

		CROCI			Industry positioning							Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Revenue 3-year CAGR	Current market share of main product	Interest coverage	3-year EBITDA margin progression	Competition	Rank	Quartile	Score	Quartile
Cherkizovo Group	1,322.5	1.2%	16.1%	2	19%	7.2%	2.5	0.7pp	#1	#2	#1	17	#2
Razgulay Group	284.6	4.6%	15.2%	2	14%	6.0%	4.9	1.6pp	#9	#9	#4	15	#3
Pharmstandard	3,998.4	-2.0%	35.0%	2	13%	2.0%	-1.2	2.7pp	#5	#4	#2	15	#3
Veropharm	430.0	-1.0%	26.2%	2	19%	NA	-1.1	0.9pp	#7	#5	#2	17	#2
Dixy Group	1,161.0	-1.0%	13.0%	3	33%	1.0%	1.6	0.6pp	#4	#5	#2	16	#3
Magnit (GDR)	13,637.6	-0.2%	17.1%	2	41%	3.5%	2.0	0.0pp	#2	#3	#1	23	#1
Seventh Continent	562.5	-1.0%	10.3%	3	22%	0.7%	2.6	0.3pp	#8	#10	#4	14	#3
X5 Retail Group	10,710.6	1.5%	13.0%	2	31%	5.0%	3.4	-0.4pp	#1	#8	#4	24	#1
O'key Group	3,121.3	2.8%	16.5%	1	43%	1.2%	1.2	-0.4pp	#3	#5	#2	16	#3
M-VIDEO	1,528.0	1.4%	15.0%	2	22%	13.5%	-1.4	0.1pp	#6	#1	#1	20	#2

Source: FactSet, Goldman Sachs Research estimates.

Exhibit 67: ESG score breakdown for consumer sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Cherkizovo Group	1	1	1	4	5	1	4	17	0	17
Razgulay Group	1	1	2	4	1	1	2	12	3	15
Pharmstandard	1	1	1	4	5	1	2	15	0	15
Veropharm	1	1	1	4	4	1	5	17	0	17
Dixy Group	1	1	1	4	3	1	5	16	0	16
Magnit (GDR)	1	1	2	4	6	1	5	20	3	23
Seventh Continent	1	1	2	4	3	1	2	14	0	14
X5 Retail Group	4	1	2	4	5	3	5	24	0	24
O'key Group	1	1	1	4	5	1	3	16	0	16
M-VIDEO	1	1	4	4	3	5	2	20	0	20

Source: Goldman Sachs Research.

Exhibit 68: Back-tested performance of consumer companies
Market-relative performance by CROCI quartiles, %

Source: Datastream, Goldman Sachs Research estimates.

Exhibit 69: Back-tested performance of consumer companies
Market-relative performance by industry position quartiles, %

Source: Datastream, Goldman Sachs Research estimates.

Source: Goldman Sachs Research.

Exhibit 63: Governance scoring framework

Russia specific changes to Governance scoring framework are highlighted

Score	Independent Board leader	Independent Board directors and committees	Independent audit committee	CEO compensation as % of DACF	Share-based compensation as % DACF	Protection of minority shareholders	Reporting quality
5	Separate CEO/Chairperson AND Existence of a lead Director	>= 75% independent directors; independent nomination AND compensation committees	Audit committee comprising independent board of directors and < 10% non-audit (consutancy, tax advice etc) to audit fees	1st quartile CEO compensation as a % of DACF (less than 25%)	Share based compensation as % of DACF in the 2nd tercile (i.e. market average)	No block shareholdings > 5% AND no infringement of minority shareholders, incl. staggered boards, poison pills, unequal voting rights and restrictions on voting rights	Company reports quarterly financial statements according to either IFRS or US GAAP, quarterly results are reported within 2 months after quarter end
4	Separate CEO/Chairperson, no lead director	50 - 75% independent directors; independent nomination AND compensation committees	Audit committee comprising independent board of directors and < 25% non-audit to audit fees	2nd quartile CEO compensation as a % of DACF		No block shareholdings > 5% and one defence against minority shareholders OR block shareholdings < 25% and no defence against minority shareholders	Company reports quarterly financial statements according to either IFRS or US GAAP, quarterly results are reported during the 3rd month after the quarter end
3	Existence of a lead director, no separate CEO/Chairperson	>50% independent directors; independent nomination OR compensation committee	Audit committee comprising independent board of directors and > 25% non-audit to audit fees	3rd quartile CEO compensation as a % of DACF	Share based compensation as % of DACF in the 1st or 3rd tercile	25% >=Block shareholdings > 5% and one defence against minority shareholders OR block shareholdings < 25% and two defences against minority shareholders	Company reports quarterly financial statements according to either IFRS or US GAAP, quarterly results are reported later than 3 months after quarter end OR company does not report quarterly financials, semi-annual financial statements are reported accoring to either US GAAP or IFRS within 2 months after the reporting period end
2		>= 50% independent directors -OR- independent nomination -OR- compensation committee	No independence of the audit committee; disclosure of audit fees and non-audit fees	4th quartile CEO compensation as a % of DACF		25% < Block shareholdings < 50% -AND- less than three defences against minority shareholders	Company does not report financial statements accoring to IFRS or US GAAP, but reports quarterly statements
1	No separate CEO/Chairperson, no lead director	<50% independent directors, no independence of nomination and compensation committees	No disclosure of audit fees and non-audit fees	No disclosure	No disclosure of share-based compensation	Block shareholdings >= 50% -OR- three or more defences against minority shareholders	Company does not report financial statements accoring to IFRS or US GAAP and does not report quarterly statements
+1						NO related party transactions	
+2						IR function	
+2						Foreign listing	

Source: Goldman Sachs Research.

Consumer sector

Industry positioning: Within consumer space we favor companies with robust growth profile and top quartile cash returns, which are able to maintain high levels of revenue generation and improve profitability. We like stocks with strong market position that have the ability to increase the market share and benefit from consolidation trends as well as maintain low leverage despite significant investments in future development. Our top picks in this segment are Magnit, Cherkizovo and M-Video.

Management: Three companies in this sector have outstanding governance scores – Magnit, M-Video and X5 Retail group. All three have more than 50% independent directors on the Board; Magnit and X5 report quarterly financials within two months of quarter end and have international listings. M.Video lacks scores for reporting but all three committees – nomination, compensation and audit – are fully independent.

Exhibit 64: Structural scoring of consumer sector

		CROCI			Industry positioning							Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Revenue 3-year CAGR	Current market share of main product	Interest coverage	3-year EBITDA margin progression	Competition	Rank	Quartile	Score	Quartile
Cherkizovo Group	1,322.5	1.2%	16.1%	2	19%	7.2%	2.5	0.7pp	# 1	# 2	# 1	17	# 2
Razgulay Group	284.6	4.6%	15.2%	2	14%	6.0%	4.9	1.6pp	# 9	# 9	# 4	15	# 3
Pharmstandard	3,998.4	-2.0%	35.0%	2	13%	2.0%	-1.2	2.7pp	# 5	# 4	# 2	15	# 3
Veropharm	430.0	-1.0%	26.2%	2	19%	NA	-1.1	0.9pp	# 7	# 5	# 2	17	# 2
Dixy Group	1,161.0	-1.0%	13.0%	3	33%	1.0%	1.6	0.6pp	# 4	# 5	# 2	16	# 3
Magnit (GDR)	13,637.6	-0.2%	17.1%	2	41%	3.5%	2.0	0.0pp	# 2	# 3	# 1	23	# 1
Seventh Continent	562.5	-1.0%	10.3%	3	22%	0.7%	2.6	0.3pp	# 8	# 10	# 4	14	# 3
X5 Retail Group	10,710.8	1.5%	13.0%	2	31%	5.0%	3.4	-0.4pp	# 1	# 8	# 4	24	# 1
O'key Group	3,121.3	2.8%	18.5%	1	43%	1.2%	1.2	-0.4pp	# 3	# 5	# 2	16	# 3
M-VIDEO	1,528.0	1.4%	15.0%	2	22%	13.5%	-1.4	0.1pp	# 6	# 1	# 1	20	# 2

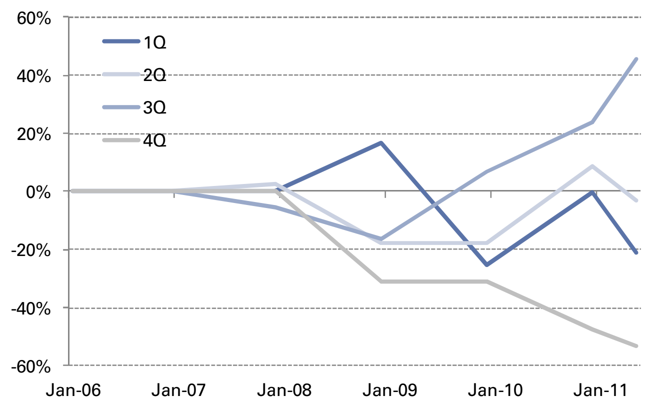
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 65: ESG score breakdown for consumer sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Cherkizovo Group	1	1	1	4	5	1	4	17	0	17
Razgulay Group	1	1	2	4	1	1	2	12	3	15
Pharmstandard	1	1	1	4	5	1	2	15	0	15
Veropharm	1	1	1	4	4	1	5	17	0	17
Dixy Group	1	1	1	4	3	1	5	16	0	16
Magnit (GDR)	1	1	2	4	6	1	5	20	3	23
Seventh Continent	1	1	2	4	3	1	2	14	0	14
X5 Retail Group	4	1	2	4	5	3	5	24	0	24
O'key Group	1	1	1	4	5	1	3	16	0	16
M-VIDEO	1	1	4	4	3	5	2	20	0	20

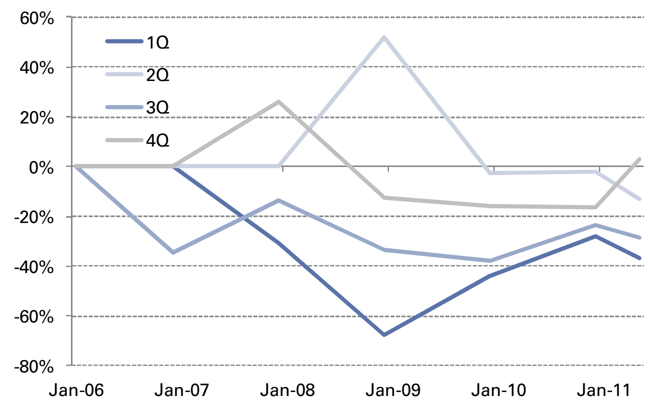
Source: Goldman Sachs Research.

Exhibit 66: Backtested performance of consumer companies
Market-relative performance by CROCI quartiles, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 67: Backtested performance of consumer companies
Market-relative performance by industry position quartiles, %



Source: Datastream, Goldman Sachs Research estimates.

Energy sector

Industry position. We focus on TOP 330 exposure, refining complexity, positioning for 60/66 tax reform and structural growth of EBITDA in a flat oil price scenario. This metrics summarize our focus on three main themes.

- **Greenfield exposure**. The companies with strong Greenfield portfolio (TOP 330 exposure) are better positioned to benefit from potential tax breaks for Greenfield and can ensure long-term production stability/growth. Apart from impact on production we look at value of TOP 330 projects relative to the respective company's current market cap, as it demonstrates the extent TOP 330 projects can add value to the company, relative to its current size.
- **Positioning for future tax changes**. Given the government's focus on raising taxes for fuel oil, we believe that refining complexity (light products output) is important for long-term positioning of the companies. Refineries with higher light products output will be less vulnerable to adverse changes in downstream taxation relative to those that produce material volumes of fuel oil. We also look at positioning relative to 60/66 tax reform, as in our view there is high likelihood of reduction of tax burden in upstream accompanied with increase in oil products taxation, and 60/66 reform is likely to go ahead at some point in future.
- **Structural growth of the company**. In the situation when taxation and commodity prices remain uncertain, structural growth that the company can deliver based on its asset portfolio, execution and expansion opportunities is an important factor for long-term sustainable development. We evaluate structural growth opportunities based on EBITDA change from 2011 to 2013 in unchanged macro assumptions scenario (i.e. flat oil price, flat exchange rates and no inflation).

Management. Among Structural Leaders in the energy sector Novatek and Alliance Oil get 24 and 23 points respectively – among the highest in the Russian universe. Rosneft gets 18 and qualifies only to 2nd quartile despite the full independence of its audit process and high reporting quality – as a state owned company it suffers from the negative ownership score.

Exhibit 68: Structural scoring of Energy sector

		CROCI			Industry positioning								Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	TOP 330 prod-n as % of current	Refining complexity (2015 light products yield)	Positioning for potential 60-66 tax reform (EBITDA impact)	Structural growth (2011-15 EBITDA growth in flat macro regime and ex-tax breaks)	Value of top 280 in current market cap	Potential brownfield production uplift	Rank	Quartile	Score	Quartile
Gazprom (ADR)	160,992.5	0.2%	13.6%	3	41%	n.a.	0%	32%	42%	n.a.	# 4	# 2	13	4
Novatek	43,662.1	0.3%	32.1%	1	127%	n.a.	0%	59%	66%	n.a.	# 1	# 1	24	1
Bashneft	10,454.1	0.0%	15.6%	2	0%	73%	-9%	19%	0%	6%	# 10	# 4	19	2
Lukoil	50,084.9	-0.4%	14.2%	3	24%	57%	3%	5%	20%	11%	# 8	# 4	22	1
Rosneft	82,149.9	1.0%	13.9%	2	32%	78%	6%	20%	13%	18%	# 3	# 1	18	2
Gazprom Neft	18,872.6	-1.8%	16.6%	3	29%	60%	2%	0%	22%	10%	# 6	# 3	13	4
Surgutneftegaz (Ord)	35,696.3	-0.3%	10.5%	3	10%	52%	8%	8%	12%	17%	# 7	# 3	17	2
Tatneft (Ord)	11,246.4	0.4%	11.4%	3	0%	65%	14%	7%	0%	7%	# 8	# 4	15	3
TNK-BP Holding (Ord)	47,687.7	-6.6%	28.6%	3	55%	60%	7%	12%	20%	7%	# 5	# 2	16	3
Alliance Oil Company	3,040.8	0.8%	17.4%	2	75%	67%	0%	58%	21%	n.a.	# 2	# 1	23	1

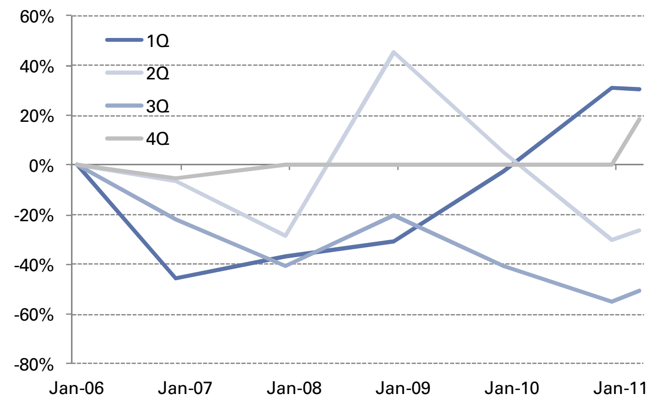
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 69: ESG score breakdown for Energy sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Gazprom (ADR)	1	1	1	4	5	1	3	16	-3	13
Novatek	1	2	1	4	6	5	5	24	0	24
Bashneft	1	1	1	4	7	1	4	19	0	19
Lukoil	1	1	2	4	5	1	5	19	3	22
Rosneft	1	4	1	4	5	1	5	21	-3	18
Gazprom Neft	1	1	1	4	3	1	5	16	-3	13
Surgutneftegaz (Ord)	1	1	1	4	7	1	2	17	0	17
Tatneft (Ord)	1	1	1	4	6	1	4	18	-3	15
TNK-BP Holding (Ord)	1	1	1	4	3	1	5	16	0	16
Alliance Oil Company	1	1	2	4	6	1	5	20	3	23

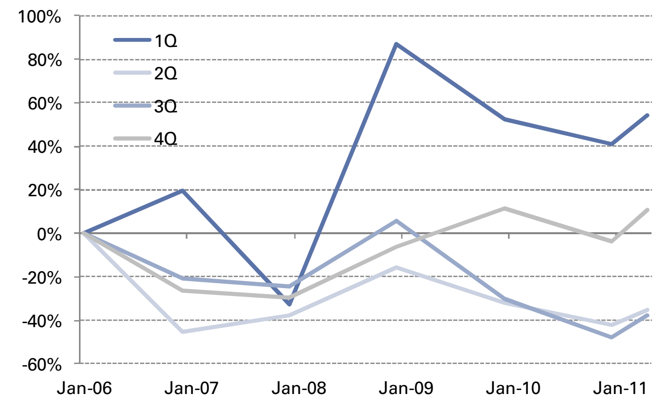
Source: Goldman Sachs Research.

Exhibit 70: Backtested performance of energy sector
Market-relative performance by CROCI quartiles, %



Source: Datastream, Goldman Sachs Research estimates

Exhibit 71: Backtested performance of energy sector
Market-relative performance by industry position quartile, %



Source: Datastream, Goldman Sachs Research estimates

Oil services and pipe producers

Industry position. We have focused on barriers to entry, market positioning and ability to expand margins.

- **Barriers to entry.** We believe that segments of the oil service industry with material capex needs, long-term contracts based relations with customers and high level of market consolidation have higher barriers to entry making companies in these segments better positioned to withstand competition and hence their market share and profitability levels.
- **Market positioning.** We prefer companies with exposure to segments with high growth potential, mainly drilling and LDP, given our positive view on brownfield and infrastructure spending increase by the Russian oil and gas sector.
- **Profitability.** We focus on companies' ability to expand margins. We believe that companies with a good execution track record, exposure to attractive segments and high market share will be able to achieve margins expansion in the medium to longer term.

Management. This sector's distinction is that four out of five companies qualify for 1st quartile by management score. OFS Structural Leader Eurasia Drilling Company gets 26 points for six out of seven independent directors on the Board, disclosing CEO compensation and audit fees and fully independent audit committee. TMK scores 23 for disclosure of CEO cash and share based compensation and 5 out of 10 independent directors.

Exhibit 72: Structural scoring of Oil services companies and Pipe producers

		CROCI			Industry positioning					Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Barriers to entry	Market positioning	Ability to expand margins	Rank	Quartile	Score	Quartile
Integra Group	569.4	-1.2%	14.2%	3	# 3	# 4	# 1	4	# 3	25	1
Eurasia Drilling Company	4,428.9	-2.1%	28.2%	2	# 2	# 1	# 2	1	# 1	26	1
C.A.T oil AG	533.7	-1.4%	14.8%	3	# 4	# 5	# 4	5	# 4	22	1
TMK	3,936.7	-1.6%	15.4%	3	# 1	# 3	# 3	3	# 2	23	1
ChelPipe	1,157.3	-1.3%	18.0%	2	# 1	# 2	# 2	1	# 1	15	3

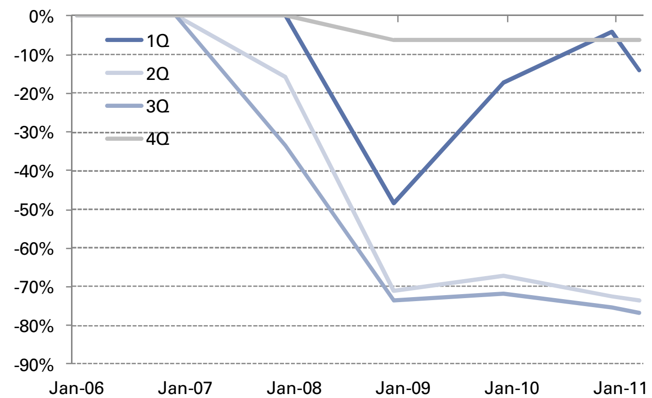
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 73: Management score breakdown for Oil services companies and Pipe producers

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Integra Group	1	1	1	4	9	1	5	22	3	25
Eurasia Drilling Company	4	5	2	4	5	1	5	26	0	26
C.A.T oil AG	3	2	1	4	6	1	5	22	0	22
TMK	5	1	2	4	5	3	3	23	0	23
ChelPipe	1	1	3	4	3	1	2	15	0	15

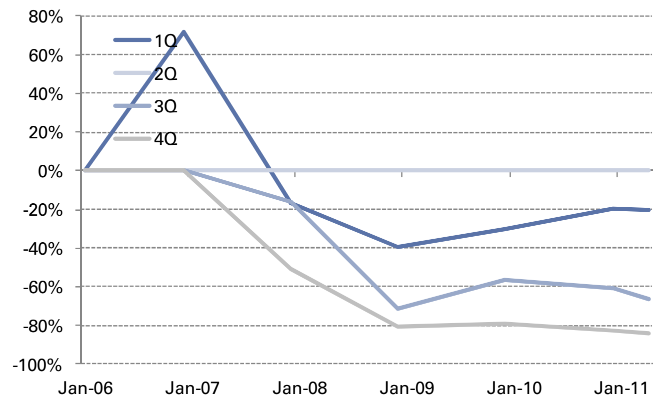
Source: Goldman Sachs Research.

Exhibit 74: Backtested performance of OFSP sector
Market-relative performance by CROCI quartiles, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 75: Backtested performance of OFSP sector
Market-relative performance by industry position quartiles, %



Source: Datastream, Goldman Sachs Research estimates.

Mining sector

Industry position. We focus on companies' ability to deliver efficient growth. We first look into output CAGR to capture growth potential of our mining coverage and then cross check it with profitability measures. Our mining group combines precious, base metals, coal and agrochemicals producers. These industries are differentiated by cost drivers and cost structures. Therefore, to measure cost efficiency we rank each company relative to its relevant global industry cash cost curve (industry cash cost curve rank). Lastly in order to capture company's ability to transform its cost position and output growth into profitability progression we look at the change in EBIT margin over two years as well as the normalised EBIT margin.

Management. Petropavlovsk gets the highest score in Russian coverage – 29. It has six independent directors out of nine, fully independent compensation and audit committee, and it discloses audit and non-audit fees and cash-based CEO compensation.

Exhibit 76: Structral scoring of Mining sector

		CROCI			Industry positioning						Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	2010E-13E output CAGR	Operating cost position	EBIT margin 2 year change	Normalized cost position	Rank	Quartile	Score	Quartile
Petropavlovsk PLC	2,282.4	-4.1%	20.6%	3	13%	# 3	29%	20%	# 4	# 2	29	1
Polymetal	6,305.0	-0.4%	28.7%	2	19%	# 4	11%	29%	# 5	# 3	19	2
Polyus Gold	12,776.7	8.5%	30.3%	1	17%	# 3	15%	33%	# 3	# 2	18	2
United Company Rusal	22,110.7	-1.7%	13.9%	3	4%	# 2	-1%	19%	# 7	# 4	23	1
Norilsk Nickel	43,340.6	-4.3%	23.0%	3	4%	# 1	-1%	38%	# 6	# 4	15	3
Raspadskaya	4,762.9	-1.4%	32.6%	2	25%	# 1	27%	52%	# 1	# 1	15	3
Uralkali	26,629.4	2.4%	38.3%	1	7%	# 2	14%	54%	# 2	# 1	15	3

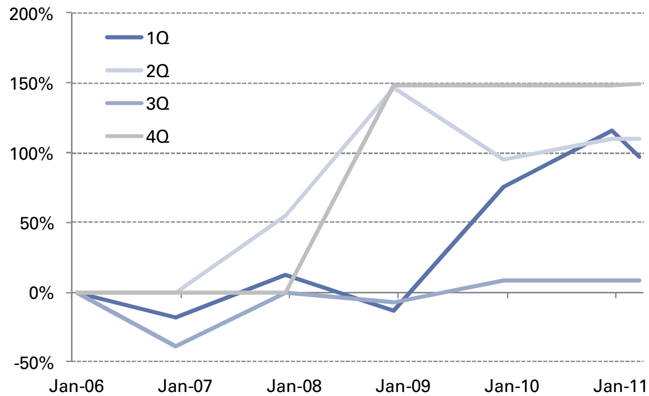
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 77: Management score breakdown for Mining sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Petropavlovsk PLC	2	4	3	4	5	5	3	26	3	29
Polymetal	1	1	2	5	5	1	4	19	0	19
Polyus Gold	1	1	1	4	6	3	2	18	0	18
United Company Rusal	2	1	1	4	5	5	5	23	0	23
Norilsk Nickel	1	1	1	4	5	1	2	15	0	15
Raspadskaya	1	1	1	4	3	1	4	15	0	15
Uralkali	1	1	1	4	5	1	2	15	0	15

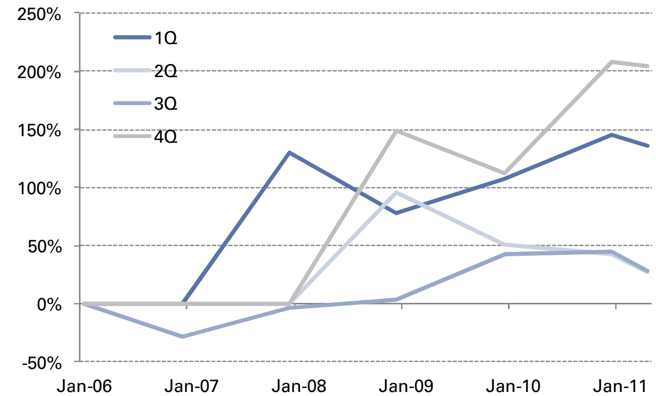
Source: Goldman Sachs Research.

Exhibit 78: Backtested performance of mining sector
Market-relative performance by CROCI quartiles, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 79: Backtested performance of mining sector
Market-relative performance by industry position quartiles, %



Source: Datastream, Goldman Sachs Research estimates.

Steel sector

Industry position. The key parameter is vertical integration. As a result of a significant increase in demand, investment requirements and marginal production costs, the price for iron ore and coking coal increased significantly through the last decade. As these bulk commodities comprise more than half of the total costs of steel production, costs for global steel producers with zero or little backwards vertical integration grew in a similar fashion. Assuming these trends continue, producers with access to low cost coking coal and iron ore assets should see a growing advantage over high cost players (which should benefit little from increasing prices).

Domestic exposure. We favour high domestic exposure (i.e. share of sales to the domestic market) owing to high growth potential and price premium in the domestic market.

We also look at the growth forecast for 2011-13, current EBIT margin and its progression in the last three years.

Management. Evraz and Mechel stand out in the steel sector scoring 22 and 23 on ESG respectively. Mechel, which is on the Russia Structural Leaders List, has seven out of nine independent directors and fully independent compensation and audit committees. Evraz gets scores for disclosure of share based CEO compensation.

Exhibit 80: Structral scoring of Steel sector

		CROCI			Industry positioning								Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Domestic exposure	Degree of vertical integration	Capacity growth	EBIT margin	EBIT margin progression	Rank	Quartile	Score	Quartile
Evraz Group	14,007.5	-4.8%	11.6%	4	34%	# 2	3%	8.4%	2.8%	# 3	# 2	22	1
Magnitogorsk Steel	10,031.7	-3.6%	9.9%	4	66%	# 5	13%	7.9%	0.1%	# 3	# 2	18	2
Mechel	12,299.9	-0.6%	21.9%	2	50%	# 1	12%	16.1%	2.6%	# 2	# 1	23	1
Novolipetsk Steel	21,929.2	-1.2%	15.5%	3	38%	# 4	15%	22.2%	2.8%	# 1	# 1	17	2
Severstal	18,194.1	-1.0%	17.5%	2	37%	# 3	3%	18.4%	-3.7%	# 5	# 4	20	2

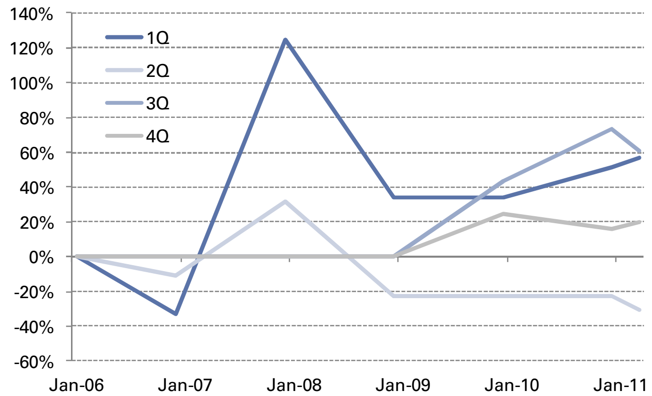
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 81: ESG score breakdown for Steel sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Evraz Group	1	2	1	4	9	3	2	22	0	22
Magnitogorsk Steel	1	1	2	4	5	1	4	18	0	18
Mechel	1	3	5	4	5	1	4	23	0	23
Novolipetsk Steel	1	1	1	4	5	1	4	17	0	17
Severstal	1	1	2	5	5	1	5	20	0	20

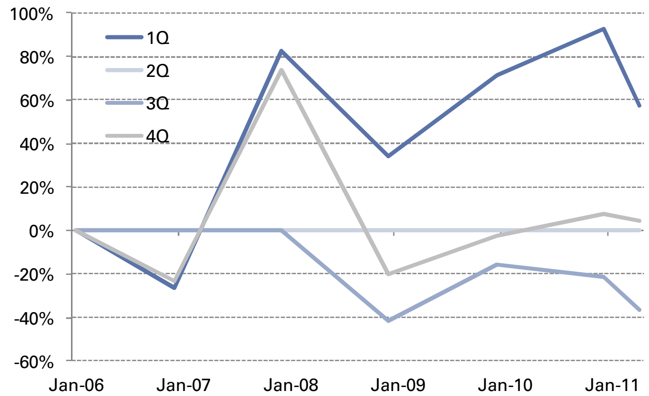
Source: Goldman Sachs Research.

Exhibit 82: Backtested performance of steel sector
Market-relative performance by CROCI quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 83: Backtested performance of steel sector
Market-relative performance by industry position quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Telecoms/Media/Technology sector

Industry position. Given the diversity of companies within broader TMT sector we prefer to rank them based on revenue growth, market share and EBITDA margin expansion. This approach favors mature cellular companies – MTS and Vimpelcom – as their market is less fragmented and they have dominant market shares; and rapidly growing internet or technology companies – Mail.ru in this case.

Management. MTS scores 25 points as it has all three – compensation, nomination and audit – independent committees and it discloses audit and non-audit fees as well as value of share based compensation. CTC-Media and Vimpelcom get high scores, 26 and 27, respectively, for disclosure of audit and non-audit fees, CEO compensation and value of share based compensation. CTC Media has also fully independent compensation committee.

Exhibit 84: Structral scoring of Telecom sector

		CROCI			Industry positioning							Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Market share	3-year market share change	3-year revenue CAGR	EBITDA margin	EBITDA margin 3-year change	Rank	Quartile	Score	Quartile
Mobile Telesystems	20,174.3	-1.9%	20.2%	3	33.8%	0.8%	11.2%	45.7%	-0.7%	# 2	# 1	25	1
Sistema JSFC (GDR)	12,670.5	0.4%	20.0%	2	16.5%	3.2%	6.3%	25.5%	-0.2%	# 5	# 3	21	2
VimpelCom Ltd.	18,661.4	-1.6%	19.0%	3	24.4%	-0.2%	12.1%	47.8%	0.0%	# 1	# 1	26	1
Rostelecom (Ord)	16,084.4	0.5%	16.1%	2	16.2%	-2.8%	-1.5%	19.7%	-2.4%	# 7	# 4	17	2
CTC Media	2,997.0	-3.3%	36.9%	2	12.8%	-0.2%	26.2%	35.4%	3.4%	# 4	# 2	27	1
Mail.ru Group Ltd.	7,251.3	3.0%	11.2%	2	12.5%	-0.5%	34.1%	36.0%	14.5%	# 2	# 1	16	3
IBS Group	720.9	-6.6%	24.3%	3	11.7%	1.0%	20.4%	7.7%	3.2%	# 6	# 4	18	2

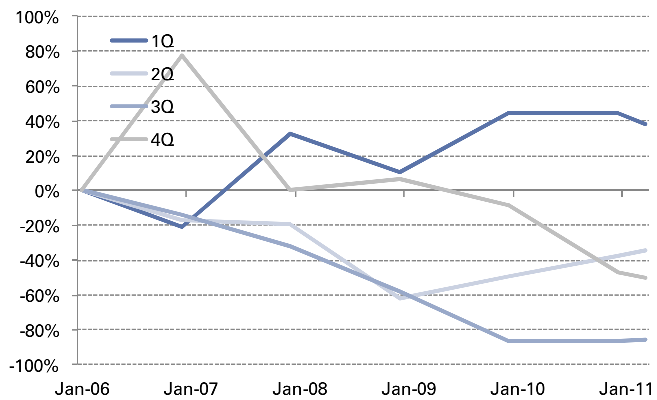
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 85: Management score breakdown for Telecom sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Mobile Telesystems	1	5	2	4	5	3	5	25	0	25
Sistema JSFC (GDR)	1	1	1	4	5	5	4	21	0	21
VimpelCom Ltd.	1	2	1	4	5	5	5	23	3	26
Rostelecom (Ord)	1	1	1	4	5	3	5	20	-3	17
CTC Media	2	4	1	4	5	3	5	24	3	27
Mail.ru Group Ltd.	1	1	1	4	5	1	3	16	0	16
IBS Group	1	1	2	1	5	1	4	15	3	18

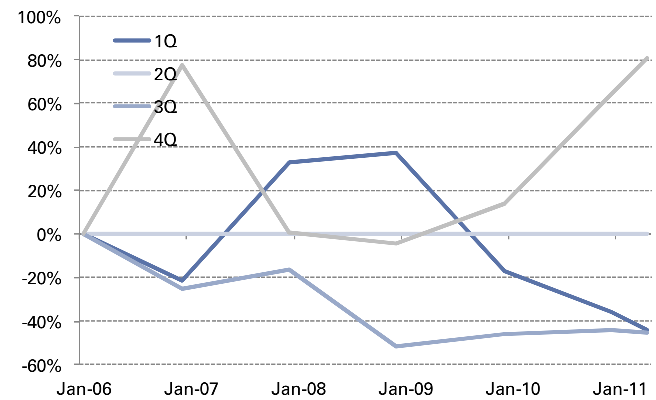
Source: Goldman Sachs Research.

Exhibit 86: Backtested performance of TMT sector
Market-relative performance by CROCI quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 87: Backtested performance of TMT sector
Market-relative performance by industry position quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Utilities sector

Industry position. We rank power utilities on the basis of asset efficiency accounting for fuel consumption, access to cheap fuels and location in the regions with higher power prices. We assess power utilities' regulatory risks considering share of regulated sales, impact on the end consumer tariffs and potential tariff reductions in 2011 that were proposed by the regulator.

Management. Utilities companies generally have low level of disclosure, only OGK-2 qualifies into third management quartile, other companies in the sector – only in 4th quartile.

Exhibit 88: Structral scoring of Utilities sector

		CROCI			Industry positioning								Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Assets efficiency	Regulatory risk	Asset base growth (Pet PPE increase 2010-2013)	EBITDA margin 2011	EBITDA margin 5-year fwd change	Reinvestment needs (capex/EBITDA 2010-2015)	Rank	Quartile	Score	Quartile
Inter RAO UES	2,728.9	2.0%	15.7%	2	# 3	# 2	22.0%	15.4%	2.1%	-40.7%	# 6	# 2	12	4
Mosenergo	2,829.8	1.1%	7.3%	3	# 3	# 3	0.0%	11.9%	-1.5%	-64.1%	# 12	# 4	13	4
OGK-1	2,146.8	1.8%	17.1%	2	# 3	# 1	4.8%	17.5%	4.2%	-83.5%	# 9	# 3	13	4
OGK-2	1,473.1	2.6%	12.6%	2	# 2	# 1	0.0%	17.7%	-1.5%	-104.2%	# 13	# 4	15	3
OGK-3	2,279.4	3.1%	4.4%	3	# 4	# 3	10.1%	7.8%	11.6%	-152.5%	# 11	# 4	12	4
OGK-4	5,170.0	1.7%	19.7%	1	# 1	# 1	14.4%	37.7%	0.7%	-34.4%	# 1	# 1	13	4
OGK-5	2,829.8	1.4%	13.8%	2	# 2	# 1	10.6%	25.1%	2.7%	-37.4%	# 3	# 1	12	4
OGK-6	1,130.0	1.2%	8.5%	3	# 4	# 2	7.6%	10.9%	7.3%	-88.3%	# 10	# 3	13	4
RusHydro	13,949.8	1.0%	9.1%	3	# 1	# 3	16.7%	49.7%	-3.1%	-93.5%	# 8	# 3	13	4
TGK-1	1,927.2	0.8%	9.0%	3	# 1	# 4	12.2%	28.4%	3.7%	-46.8%	# 4	# 1	13	4
Federal Grid Company	14,820.2	-0.6%	7.6%	3	# 3	# 2	42.9%	57.2%	7.9%	-130.4%	# 2	# 1	12	4
MOESK	2,240.5	-5.3%	15.9%	3	# 4	# 3	54.0%	31.5%	1.5%	-87.7%	# 5	# 2	10	4
MRSK-Holding	5,130.2	0.1%	15.1%	2	# 4	# 4	66.5%	20.2%	4.0%	-94.7%	# 7	# 2	11	4

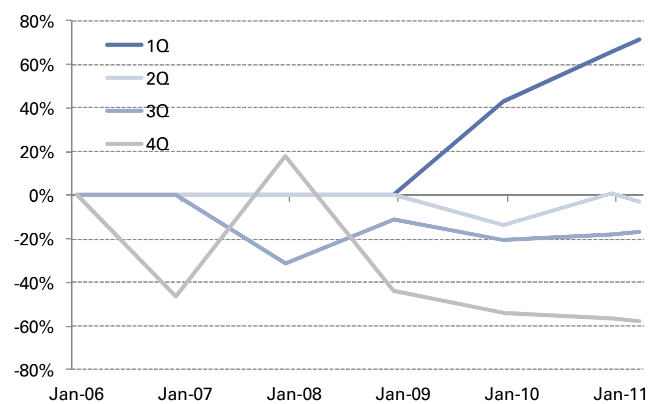
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 89: Management score breakdown for Utilities sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Inter RAO UES	1	1	1	4	3	3	2	15	-3	12
Mosenergo	1	1	1	4	3	1	5	16	-3	13
OGK-1	1	1	1	4	3	1	5	16	-3	13
OGK-2	1	1	1	4	5	1	5	18	-3	15
OGK-3	1	2	1	4	1	1	2	12	0	12
OGK-4	1	1	1	4	3	1	2	13	0	13
OGK-5	1	1	1	4	3	1	4	15	-3	12
OGK-6	1	1	1	4	3	1	5	16	-3	13
RusHydro	1	1	2	4	5	1	2	16	-3	13
TGK-1	1	1	1	4	3	1	5	16	-3	13
Federal Grid Company	1	1	1	4	5	1	2	15	-3	12
MOESK	1	1	1	4	3	1	2	13	-3	10
MRSK-Holding	1	1	2	4	3	1	2	14	-3	11

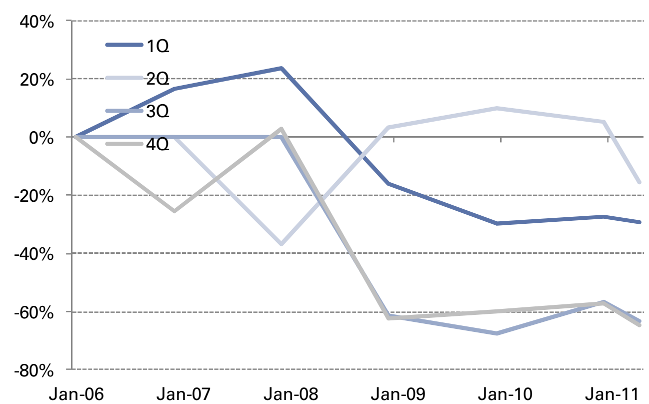
Source: Goldman Sachs Research.

Exhibit 90: Backtested performance of utilities sector
Market-relative performance by CROCI quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 91: Backtested performance of utilities sector
Market-relative performance by industry position quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Real estate sector

Industry position. In this sector we apply returns and management analysis only to four companies, but we use all GS rated Russian real estate companies to define industry positioning. We compare these companies on the following criteria: leverage, maturity of project portfolios and exposure to growing segments. We favour stocks with low leverage, high share of yielding properties in projects portfolio and exposure to growing residential housing construction and office/retail real estate segments.

Management. Real estate companies have relatively high level of disclosure. AFI, LSR and Raven Russia to some extent disclose CEO cash and share based compensation. PIK has five independent directors out of eight and all three committees – nomination, compensation and audit – are fully independent.

Exhibit 92: Structral scoring of Real Estate sector

		CROCI			Industry positioning					Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	2011 LTV	Share of yielding properties in portfolio	Exposure to attractive segments	Rank	Quartile	Score	Quartile
AFI Development PLC	1,090.6	-0.8%	4.0%	4	18.0%	76.0%	# 3	# 3	# 1	22	1
EPH	155.2	n/a	n/a	n/a	34.0%	78.0%	# 6	# 7	# 3	n/a	n/a
LSR Group	4,481.8	-4.4%	15.4%	3	n/a	n/a	# 1	# 1	# 1	21	2
Mirland	533.8	n/a	n/a	n/a	29.0%	48.0%	# 4	# 5	# 2	n/a	n/a
OPIN	534.8	n/a	n/a	n/a	19.0%	n/a	# 10	# 9	# 4	n/a	n/a
PIK Group	1,859.6	-8.0%	16.7%	3	n/a	n/a	# 2	# 2	# 1	18	2
Raven Russia	643.8	-0.2%	6.9%	3	36.0%	89.0%	# 5	# 5	# 2	26	1
RGI International	431.5	n/a	n/a	n/a	24.0%	40.0%	# 7	# 8	# 4	n/a	n/a
Sistema-Hals	280.4	n/a	n/a	n/a	81.0%	18.0%	# 8	# 10	# 4	n/a	n/a
WTC Moscow	382.0	n/a	n/a	n/a	-20.0%	100.0%	# 9	# 4	# 2	n/a	n/a

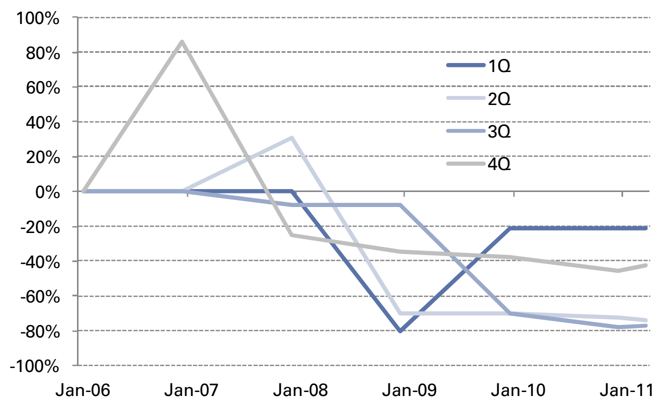
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 93: Real estate companies are scored highly relative to market
Management score breakdown for Real Estate sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
AFI Development PLC	2	1	2	4	5	3	5	22	0	22
LSR Group	5	1	1	4	5	3	2	21	0	21
PIK Group	1	1	4	4	5	1	2	18	0	18
Raven Russia	3	3	2	4	5	3	3	23	3	26

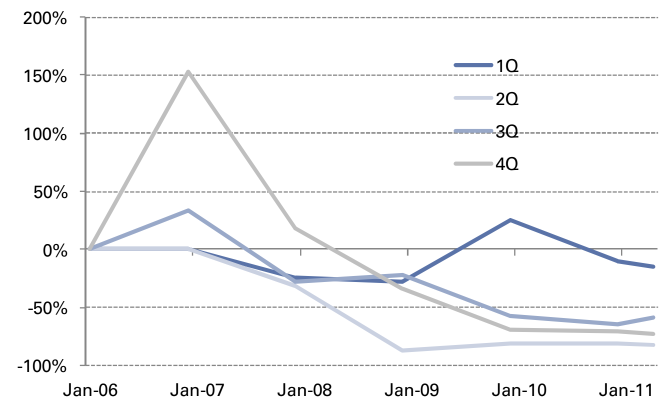
Source: Goldman Sachs Research.

Exhibit 94: Backtested performance of real estate sector
Market-relative performance by CROCI quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 95: Backtested performance of real estate sector
Market-relative performance by industry position quartile, %



Source: Datastream, Goldman Sachs Research estimates

Financials

Profitability. For all financials we use ROE instead of CROCI and set quartiles relative to financials only, not the whole market.

Industry position. We screened banks based on returns (Return on Equity), strength of loan portfolio quality/capital adequacy (90d+ NPL coverage, Tier I ratio), funding mix and franchise strength (cost of funding, net interest margin), market share, operating efficiency (cost/income ratio). We prefer banks that deliver greater returns having a strong capital base, superior loan book quality, robust margins and better operating efficiency vs. peers.

Management. MDM Bank and Vozrozhdenie Bank received higher scores, because they have 50% or more independent directors on the Board – four out of seven in MDM and six out of 12 in Vozrozhdenie.

Exhibit 96: Structral scoring of Financial sectors

		ROE			Industry positioning										Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Cost/ income ratio	Tier 1 Capital	Loan CAGR	Market share	ROE	Cost of funding, %	90d+ NPLs coverage	NIM	Rank	Quartile	Score	Quartile
JSC VTB Bank	31,529.1	-0.4%	16.5%	2	42.9%	12.4%	39.0%	16.9%	7.1%	5.4%	106.2%	4.5%	# 3	# 2	14	3
Bank Saint Petersbu	1,563.1	-2.2%	19.2%	2	31.3%	9.6%	58.5%	1.1%	19.8%	5.7%	195.6%	6.5%	# 2	# 1	15	3
MDM Bank (Pref)	2,164.5	-3.6%	8.1%	4	65.1%	18.6%	26.1%	1.7%	8.7%	5.7%	82.5%	6.5%	# 5	# 4	19	2
Sberbank	73,503.6	-1.9%	23.1%	1	41.9%	11.9%	26.9%	32.5%	20.5%	4.7%	148.9%	7.3%	# 1	# 1	13	4
Vozrozhdenie Bank	869.2	-3.4%	16.1%	4	72.5%	12.8%	28.9%	0.6%	15.6%	5.7%	131.5%	6.7%	# 4	# 3	19	2

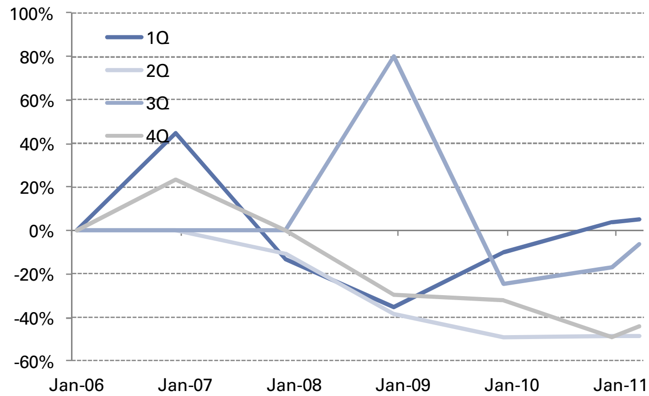
Source: FactSet, Goldman Sachs Research estimates

Exhibit 97: Management score breakdown of Financial sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
JSC VTB Bank	1	1	1	4	5	1	4	17	-3	14
Bank Saint Petersburg	1	1	1	4	3	1	4	15	0	15
MDM Bank (Pref)	1	1	4	4	3	1	5	19	0	19
Sberbank	1	1	1	4	3	1	5	16	-3	13
Vozrozhdenie Bank	1	1	2	4	5	1	5	19	0	19

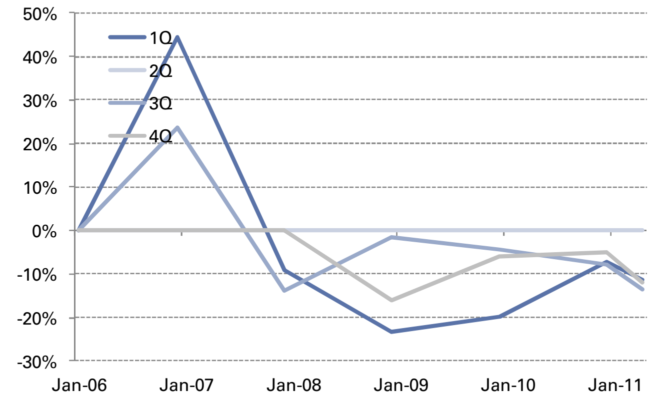
Source: Goldman Sachs Research.

Exhibit 98: Backtested performance of financial sector
Market-relative performance by CROCI quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 99: Backtested performance of financial sector
Market-relative performance by industry position, %



Source: Datastream, Goldman Sachs Research estimates.

Construction and building materials

Industry position. We screen companies engaged in building materials production and infrastructure construction based on their exposure to growing state infrastructure spend, market position and profitability. Our top picks in this segment are highly exposed government spending on modernisation of the Russian transportation system, have strong market position in their focus segments and demonstrate robust top-line growth in upcoming years.

Management. Mostotrest has low level of disclosure and only one independent director out of 11.

Exhibit 100: Structural scoring of Construction and Building Materials sector

		CROCI			Industry positioning							Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Gross margin latest	Exposure to Government's infrastructure project	2011-13 revenue CAGR	Market share in own segment	Rank	Quartile	Score	Quartile
Mostootryad 19	89.1	n/a	n/a	n/a	14.5%	# 4	20.0%	1.1%	# 4	# 4	n/a	n/a
Mostostroy-11	117.5	n/a	n/a	n/a	16.5%	# 3	19.4%	1.3%	# 3	# 3	n/a	n/a
Mostotrest	2,282.0	6.3%	33.9%	1	16.7%	# 1	20.0%	8.0%	# 1	# 1	13	4
Gornozavodskceme	232.5	n/a	n/a	n/a	31.0%	# 6	15.0%	1.1%	# 5	# 4	n/a	n/a
Sibirskiy Cement	751.2	n/a	n/a	n/a	55.0%	# 5	24.0%	6.1%	# 2	# 2	n/a	n/a

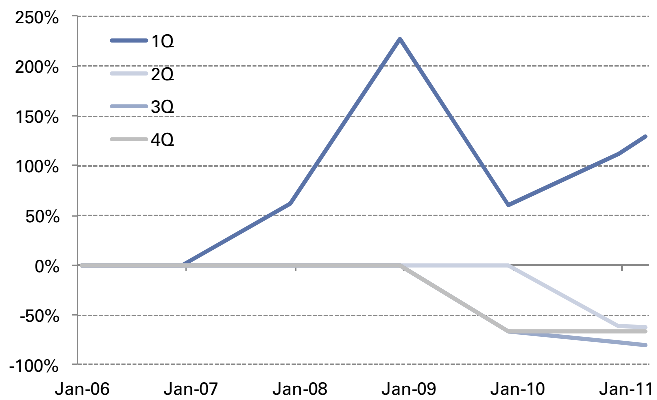
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 101: Management score breakdown of Construction and Building Materials sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Mostotrest	1	1	1	4	3	1	2	13	0	13

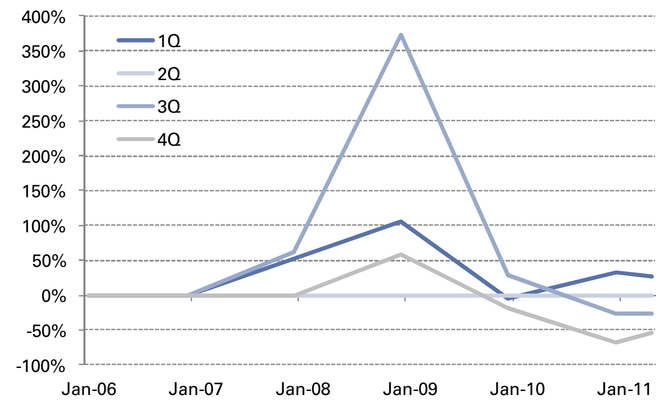
Source: Goldman Sachs Research.

Exhibit 102: Backtested performance of CBM sector
Market-relative performance by CROCI quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 103: Backtested performance of CBM sector
Market-relative return by industry position quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Automotives

Industry position. We screen automotive producers in our coverage based on their market position and investment cycle, exposure to foreign expertise, leverage, profitability and top line growth prospects. We favor fast growing auto producers in the end of investment cycle with reasonable leverage, strong market position and well built relationships with foreign auto producers (JVs, shareholders). Sollers and KAMAZ screen best based on these criteria.

Management. Automotive companies have low level of disclosure; Sollers gets 17 points for disclosure of value of share based compensation expensed to the income statement.

Exhibit 104: Structral scoring of Automotive sector

		CROCI			Industry positioning								Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Current Market share main product	Investment cycle	Foreign expertise	2011-13E avg EBITDA margin	2011-12 Net Debt/ EBITDA	US$ Revenue CAGR 2010-13	Rank	Quartile	Score	Quartile
Avtovaz	1,281.6	0.1%	5.8%	3	23.0%	# 5	# 2	5.7%	7.3	23.3%	# 4	# 3	9	4
GAZ	788.9	n/a	n/a	n/a	3.1%	# 4	# 5	9.7%	3.3	30.1%	# 5	# 4	n/a	n/a
KAMAZ	1,414.5	-1.7%	14.0%	3	30.0%	# 3	# 3	10.3%	1.5	23.5%	# 2	# 1	10	4
Sollers	634.0	-1.7%	15.1%	3	4.0%	# 1	# 1	10.4%	3.1	28.1%	# 1	# 1	17	2
UAZ	469.7	n/a	n/a	n/a	2.2%	# 2	# 4	10.2%	-1.1	12.2%	# 3	# 3	n/a	n/a

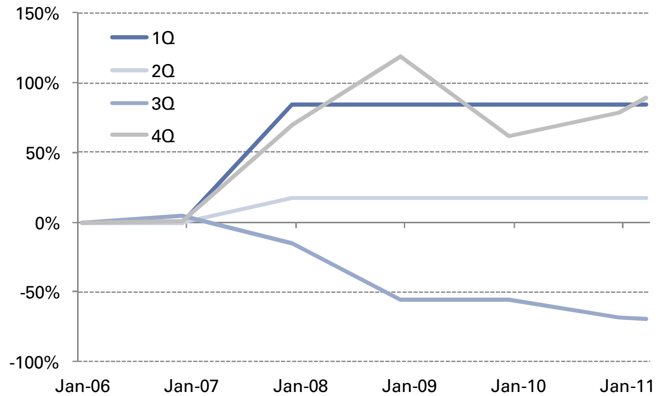
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 105: Management score breakdown of Automotive sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Avtovaz	1	1	2	4	1	1	2	12	-3	9
KAMAZ	1	1	3	4	1	1	2	13	-3	10
Sollers	1	1	2	4	4	3	2	17	0	17

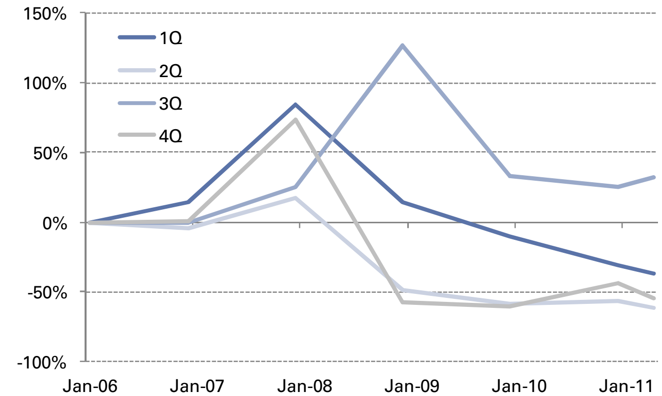
Source: Goldman Sachs Research.

Exhibit 106: Backtested performance of automotive sector
Market-relative performance by CROCI quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 107: Backtested performance of automotive sector
Market-relative performance by industry position quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Transportation

Industry position. We screen transportation companies based on their cash returns growth profile, market position, leverage and profitability prospects. From this perspective we prefer the stocks with strong revenue generation profile, which hold leading market position within highly fragmented markets (and hence have opportunities to gain market share and benefit from consolidation trends), have low leverage and can potentially improve their profitability.

Management. Companies in that sector have low level of disclosure. FESCO gets only one point in "independent board leader" criteria, because its CEO is also the Chairman.

Exhibit 108: Structural scoring of Transport sector

		CROCI			Industry positioning							Management quality	
Company	Market cap (mn US$)	Avg change 2006-10, pp	Average 2011-13E, %	Quartile	Market share	EBITDA margin	3-year EBITDA margin change	Net Debt/ EBITDA	Competition	Rank	Quartile	Score	Quartile
Aeroflot	2,553.3	-0.8%	15.3%	3	20.0%	15.7%	-0.4%	2.0	# 2	# 3	# 3	11	4
FESCO	1,278.8	-1.3%	9.0%	4	NA	18.1%	3.6%	-1.6	# 4	# 2	# 2	12	4
Globaltrans	2,805.8	2.3%	20.3%	1	4.8%	45.0%	1.3%	0.8	# 1	# 1	# 1	16	3
NCSP	2,341.3	3.3%	16.1%	1	19.0%	63.3%	-2.7%	3.7	# 3	# 4	# 4	15	3

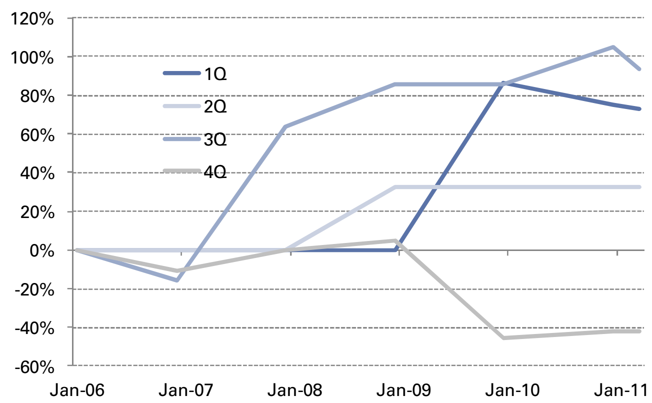
Source: FactSet, Goldman Sachs Research estimates.

Exhibit 109: Management score breakdown of Transport sector

	CEO compensation	Independent audit committee	Independent Board directors & committees	Independent Board leader	Minority shareholders' rights	Share-based compensation	Reporting quality	Governance score	Ownership score	Management score
Aeroflot	1	1	2	4	3	1	2	14	-3	11
FESCO	1	1	1	1	3	3	2	12	0	12
Globaltrans	1	1	1	4	5	1	3	16	0	16
NCSP	1	1	2	4	5	1	4	18	-3	15

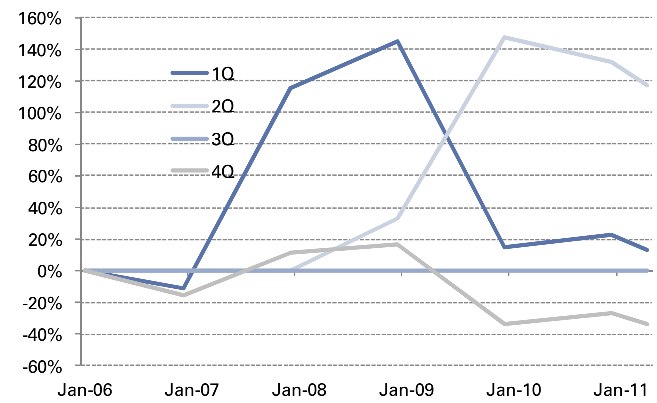
Source: Goldman Sachs Research.

Exhibit 110: Backtested performance of transport sector
Market-relative return by CROCI quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 111: Backtested performance of transport sector
Market-relative return by industry position quartile, %



Source: Datastream, Goldman Sachs Research estimates.

Special disclosures

Reg AC

We, Sergei Arsenyev, Alexander Sivolobov and Andrew Howard, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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