

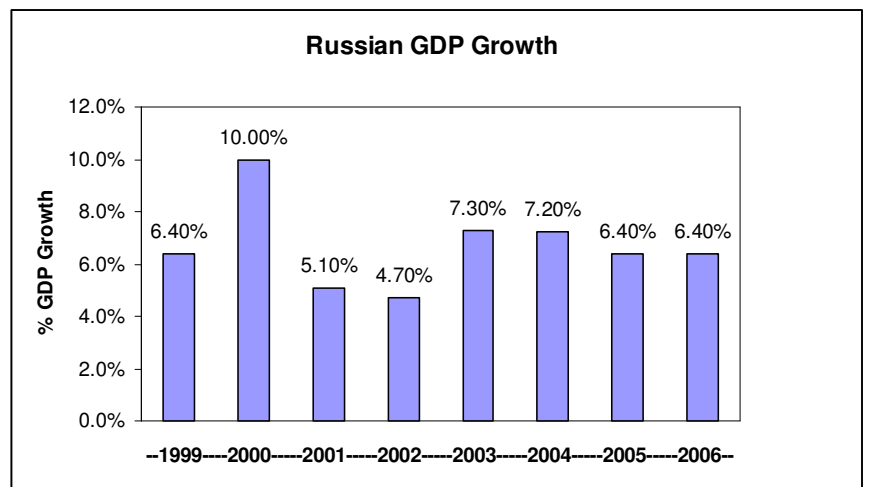


Russian Construction Material Market Research November 28, 2007

The global cement and concrete additive market is experiencing rapid growth. The world market has been growing at more than 6.8 percent annually since 2005.¹ Developed markets worldwide are posting weaker gains than the world average at about 6 percent. **Meanwhile the emerging markets of Eastern Europe are posting gains much higher than the world average at above 15 percent.**² It is the perfect time for U.S. producers to look to the emerging markets to expand their customer base and diversify their risk. The emerging markets of Eastern Europe, and specifically, Russia, are perfect targets for Western companies that are turning their eye globally to increase their revenues.

Russian Market Overview

Since 1999, Russia has experienced outstanding growth rates, constantly improving macroeconomic conditions, and a growing involvement in the global economy. These achievements, together with high world oil prices, political and economic stability, and skyrocketing foreign direct investment have all contributed to the growth of the country's economy. Russia is the fastest growing economy in the G8 group of industrialized nations. Over the last seven years, Russia's economy has grown by an average rate of 6.8 percent each year and is projected to grow at an average rate of 7 percent YOY through 2010. In 2006 and 2007 Russia's growth exceeded all expectations, accelerating in several key economic sectors such as real estate, tourism, and retail.



1 "World Cement & Concrete Additive Demand to reach \$6.7 Billion in 2008," Aggregate Research. February 21, 2005. Available online at: www.aggregateresearch.com/reports/article.asp?id=5839

2 Todd Prince. "Mortgage Market Set to Almost Double in 2007," The Moscow Times -20 march, 2007. Available on-line at: <http://www.realestate.moscowtimes.ru/archive/realestate/116>

3 "Country Report - Russia," The World Bank. 2007. Available online at: worldbank.org

Russia has a very stable macroeconomic situation. Inflation runs below 10 percent, foreign currency and gold reserves have increased to around \$400 billion and are now the world's third largest after China and Japan.⁴ The strength and stability of the economy was noted by the major credit rating agencies (S&P, Moody's and Fitch), all of which awarded Russia an upgraded investment rating in 2006.⁵ The excellent macroeconomic conditions make Russia a thriving capital market that foreign investors are increasingly finding more attractive. Foreign investment for the *first half* of 2007 totaled \$67 billion,⁶ compared, for instance, to \$14 billion in Poland in the *entire* 2006.⁷ Economists say that, "unlike in China, there are no signs of overheating of the economy detectible. Modern Russia has never before seen such a growth rate and economists expect the tendency to continue."⁸

Russian Construction Market Highlights

Growth across all sectors has contributed to the growth of Russia's real estate market and created considerable demand for affordable housing and all types of construction material. Thirteen cities in Russia have populations of more than a million, which offer ample markets for concrete, cement, and aggregate.

Residential construction increased by 15 percent in 2006, which is the highest annual growth rate since 1991.⁹ As a whole, the construction industry grew by 19.5 percent in real annual terms in 2006, accounting for 5.8 percent of GDP growth.¹⁰ Long-term growth in the housing market is being stimulated by the Russian government. In 2005, Russian President Vladimir Putin launched the National Priority Project (NPP), a national initiative focused on heavy investment in education, healthcare, agriculture, and housing. The housing component of NPP includes \$3.5 billion in annual state guarantees to develop Russia's affordable housing sector.¹¹ This means an estimated one to one and a half billion square feet of new housing will be brought onto the market every year.¹²

According to the Russian Government, about 13.5 billion square feet of available housing is needed to meet the present housing demand of the Russian population. Most of the current available housing in Russia is old, outdated, and rundown. A recently conducted population census in Russia revealed that over half of all private householders occupy buildings that were constructed between the 1950's and 1980's.¹³

4 RIA Novosti, May 21, 2007. <http://www.cdi.org/russia/johnson/2007-115-4.cfm>

5 Russian IT quarterly. Available on-line at: http://www.reksoft.com/misc/reksoft_co/files/137/Russian_Economy_Outlook.pdf

6 Kommersant July 23, 2007. The Russian Investment Boom Continues

7 Polish information and Foreign investment Agency. Available on-line at: http://www.paiz.gov.pl/nowosci/?id_news=1350&lang_id=1

8 Kommersant July 23, 2007. The Russian Investment Boom Continues

9 Todd Prince. "Mortgage Market Set to Almost Double in 2007," The Moscow Times -20 march, 2007. Available on-line at: <http://www.realestate.moscowtimes.ru/archive/realestate/116>

10 Adisa Banjanovic. "Housing in Russia becomes state priority," US Commercial Services. 21 May, 2007. <http://www.realestate.moscowtimes.ru/archive/realestate/116>

11 "Russia: Mortgage Market," US Commercial Services. August 2006.

12 Adisa Banjanovic. "Housing in Russia becomes state priority," US Commercial Services. 21 May, 2007.

13 "Russian Forestry Review 2006." Available on-line at: http://www.russianforestryreview.com/files/docs/rfr_promo.pdf

Growth is robust in the commercial sector, which runs complementary to the housing sector. In 2006, *Business Week* estimated that foreign investment funds invested as much as \$1.5 billion into Russian real estate projects, nearly double the level in 2005.¹⁴ The market is especially attractive to commercial real estate investors who are seeing annual returns that are in the double digits vs. 4 to 5 percent in Western Europe and the U.S.¹⁵ Analysts predict this growth to persist as demand continues to outpace supply by a wide margin.¹⁶

Construction of entertainment centers and shopping malls is also on the rise. Moscow is expected to have at least 17 new shopping centers by the end of 2007 as developers look to reap the benefits of rising incomes and growing consumer spending. Expansion is also occurring outside of Russia's major cities as developers have begun investing in the 13 cities with populations of more than one million throughout the vast country. By the end of 2008, 11 large shopping malls with a total of about 22 million square feet of new retail space will open in cities like Yekaterinburg, St. Petersburg, Nizhniy Novgorod, and Samara.¹⁷ Despite the spectacular growth, the market is still considered to be in its infancy and is expected to continue to drive demand for housing in the coming years.

The U.S. government reports that Russia has a large potential market for the U.S. construction and building products industries. Traditionally, European manufacturers have been better represented in Russia than U.S. firms. However, given the dollar/euro exchange rate, Russian importers of building products have expressed an increased interest in U.S. suppliers.¹⁸

There are many prime locations outside of major cities such as Moscow and St. Petersburg available to set up a manufacturing facility for cement, concrete, or aggregate. The transportation network and logistics around major Russian cities is extremely developed and makes it relatively easy to transport the necessary inputs and outputs for the facility. Russia's wide network of transportation has close to 550,000 miles of roads and a railway system considered one of the most extensive in the world, covering some 95,000 miles of broad rail.¹⁹

Furthermore, there are many U.S. government programs that can be taken advantage of in constructing such a facility in Russia. U.S. government agencies such as OPIC and Ex-Im Bank specifically exist to support and expand the international reach of U.S. businesses. These organizations can assist with financing the construction of the facility and further represent American interests abroad.

14 "The Russian Towers Are Coming," *Business Week*. 9, October 2006. Available on-line at:

http://www.businessweek.com/magazine/content/06_41/b4004066.htm

15 Ibid

16 Sabra Ayres. "Malls more than a capital idea in Russia" *International Herald Tribune*. 4 October, 2006. Available on-line at:

<http://www.iht.com/articles/2006/09/26/business/remoscow.php>

17 Ibid

18 "Overview of the Russian market for building products," BISNIS publication. Available on-line at: http://www.buyusainfo.net/docs/x_4470620.pdf

19 "Countries Information." Available on-line at:

<http://www.paagproducts.org/countries.html>

Sochi Olympics 2014

The Olympics are the most visible international sporting event. The Olympics coming to Russia present an extraordinary opportunity for construction material manufacturers of all types. These materials will be needed to improve the infrastructure and make the area suitable for such an enormous endeavor. Cement and concrete additives will be needed to construct all of the housing, hotels, venues, roads and much more to make this event a success.

On July 4, 2007, the Russian city of Sochi was elected to be the venue for the XXII Olympic Winter Games in 2014. Sochi won the honor to host one of the most prestigious international events, for the first time in Russian history (in 1980 Moscow, at that time capital of the Soviet Union, hosted the summer Olympic Games). Sochi's successful bid has immediately drawn the attention of both Russian and foreign investors who will spend at least \$20 billion in the development of the area.

Sochi's successful candidature gave the city, Krasnodar region, and all of Russia increased international visibility. The whole country has enthusiastically backed Sochi's bid and will play an active role in developing and strengthening the local, regional, and national resources to make this event a global success. With less than 30 miles dividing the white mountains of Krasnaya Polyana from the palms of the Black Sea coast, Sochi represents a unique location and a rising star among world top sport and vacation resorts.

Hosting the 2014 Winter Olympics will require large investments in order to upgrade all present sport and hospitality facilities, build new infrastructure, and make the venue a location of highest international quality.

Construction in Sochi

The construction market in Russia in general, and Sochi in particular, is surging both in residential and commercial segments. Industry experts expect the construction market to keep growing. Vesa Koivula, president of CRAMO, a leading European construction equipment leaser said, "this trend will continue for the time being. We see this market as the most promising."²⁰ According to other professionals, "Russia is one of the most attractive markets in the world for construction materials."²¹

These conditions present construction materials companies with a very distinct opportunity to expand their operations in Russia and supply the growing demand in the market. With Sochi's successful bid for the 2014 Winter Olympics, cement and concrete additive usage is expected to grow dramatically. From sport facilities to transportation, from new hotels to residential real estate, Sochi and the Krasnodar region offer extensive opportunities for Western players with a global vision.

²⁰ Yekaterina Dranitsyna. "CRAMO to Equip Russian Builders": Petersburg City.com, April 26, 2007.

<http://petersburgcity.com/news/business/2007/04/26/construction/>

²¹ Rober Obekton and Richard Luca. "The Russian construction and mining machinery market", PMR Publications 2007.

Business Opportunities for US companies in Russia

The conditions for investment into Russia are the best in Russia's history. There has never been a greater need for all types of construction materials in the region, particularly concrete and cement. Both residential and commercial construction is in high demand and the Winter Olympics are coming to Russia. The demand for these materials is greater than the supply. U.S. cement and concrete additive manufacturers can help fill this void by setting up facilities in Russia to take advantage of this enormous shortage. The current environment provides substantial opportunities for U.S. companies to bring their Western expertise to the Russian market. Establishing a concrete, cement, or aggregate manufacturing facility in the region will allow companies not only to fulfill the growing demand for these products, but also take advantage of the wide availability of raw material inputs and low labor costs, keeping costs much lower than in the United States.

If you are interested in further exploring this opportunity, we would be happy to provide you with a customized detailed proposal for your review, which will include the projected scope of work, methodology, timeline, and compensation. Please feel free to contact me at c.eddy@aginskyconsulting.com or 503-419-6431 at any time with questions. I will look forward to hearing from you soon.