



SEB Enskilda, investor conference H+H Russia

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Copenhagen, 27 March 2012

build with ease



Russia in transition

Challenges for H+H Russia and outlook in uncertain times



Negative signals

- January-February 2012 – capital outflow USD 22 billion
- Russian budget is still highly oriented on energy resources with all depending risks
- In the spotlight of the WTO entry, monopolised industry has limited competitiveness



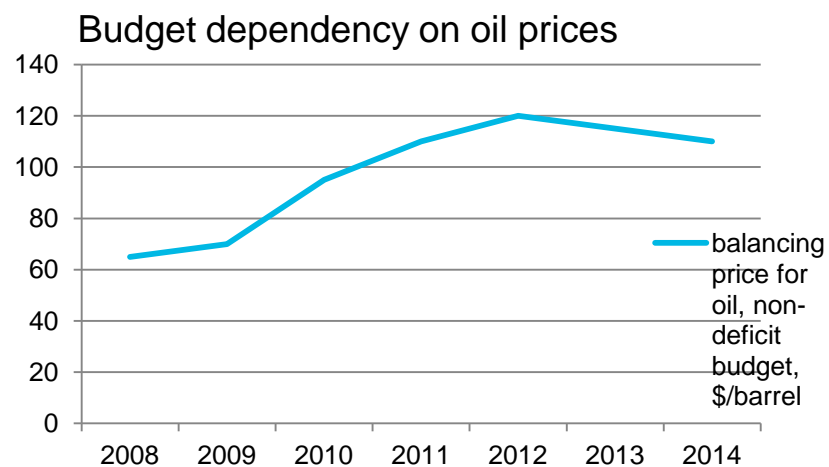
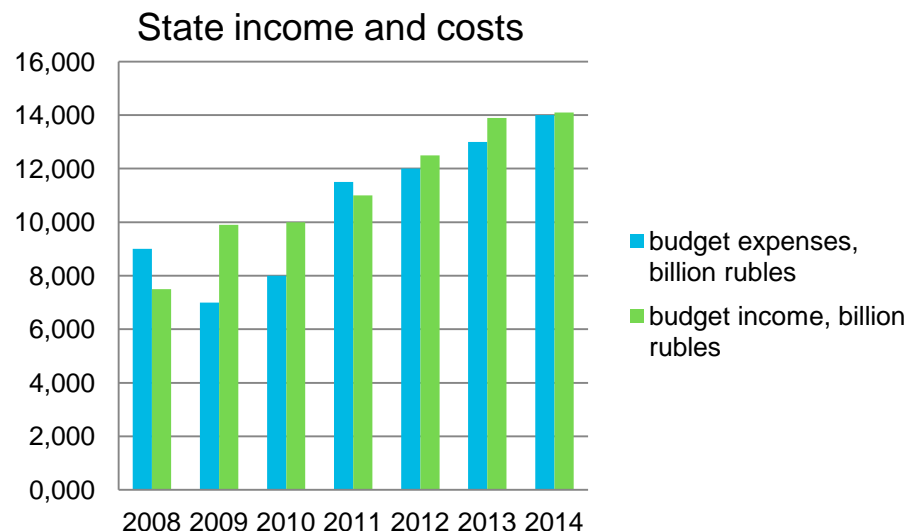
Russia needs international investments and expertise

- Improvements in investment climate
- Changes in tax system
- Billion rubble state investments in modern industries
- Privatisation

Macro economic indicators 2012

State budget and oil prices

- State income in 2011 is on the way to grow (+3,8%) but the state costs are growing faster (+16%)
- During financial crises 2008-2011 the state's costs grew with double speed:
 - Income + 22%
 - Costs + 44%
- The state budget dependency on the oil prices grew up significantly– the non-deficit budget is reachable only with an oil price of USD 117/barrel



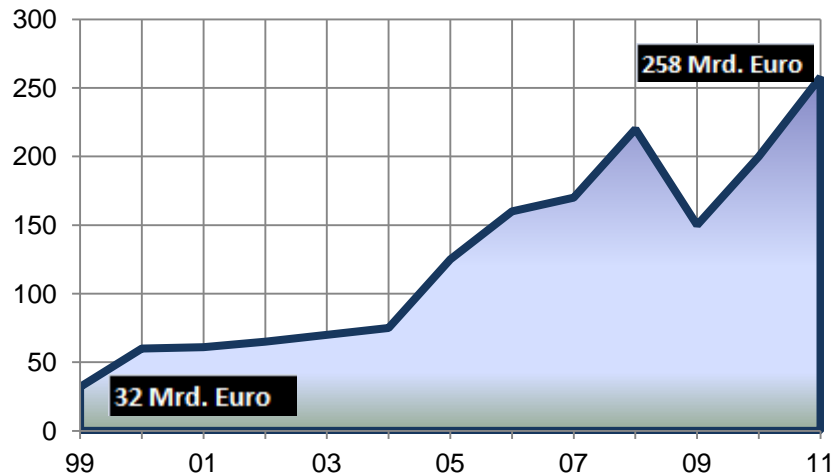
Source: Russian Ministry of Finance



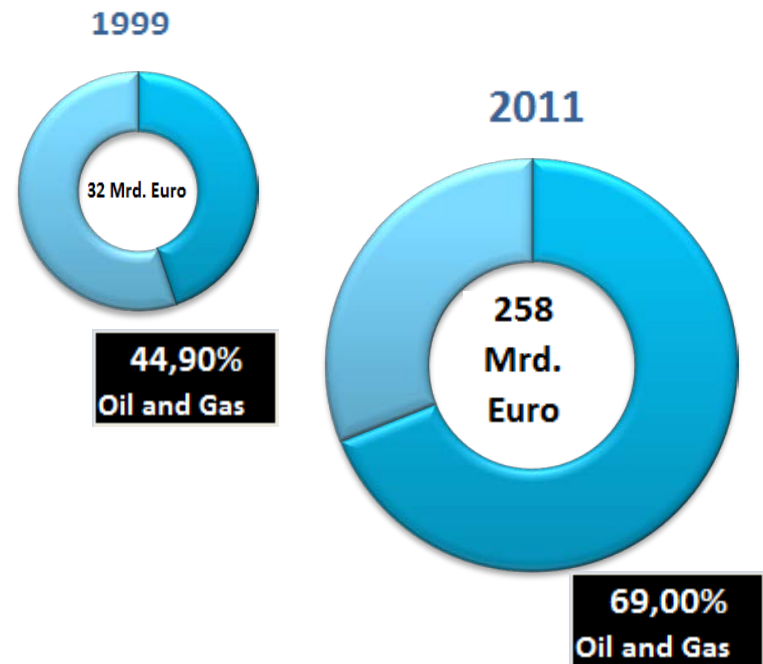
Oil and gas are drivers for economic revival

High chance – high risk

Russian exports of oil and gas



Ratio in % of total exports

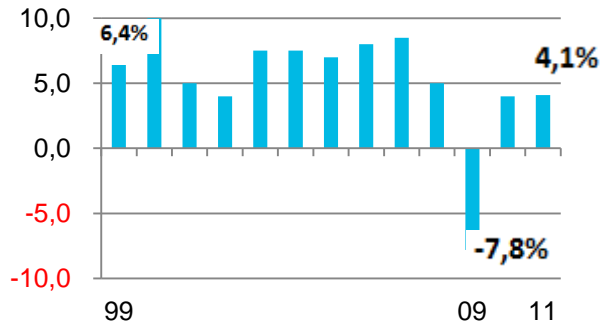


Source: EIU, IWF, Weltbank

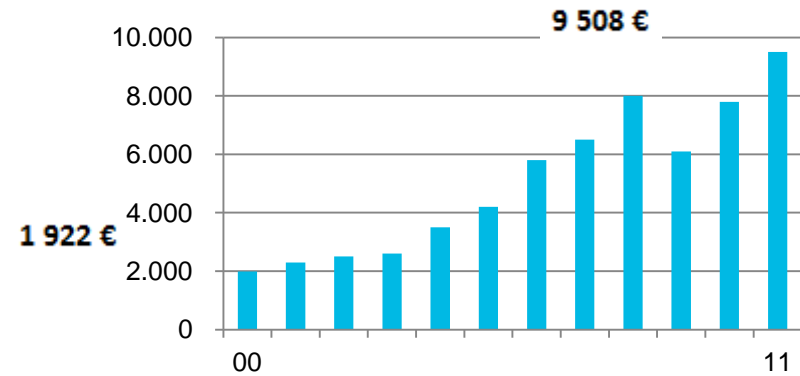
Russian key figures at a glance

Balance of 10 years governmental work

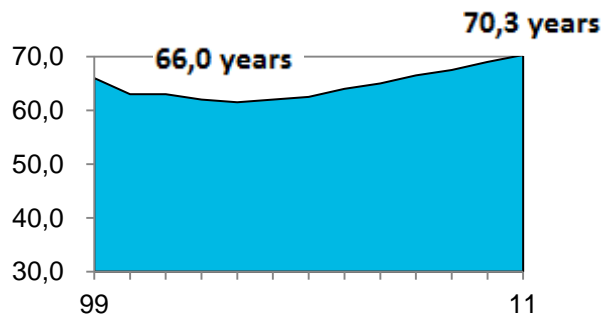
Economic growth



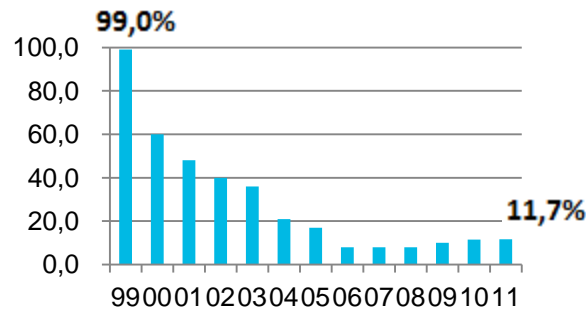
GDP per capita



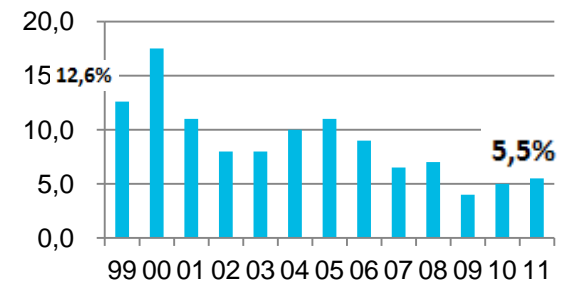
Expectancy of life in years (average)



State debt in percentage of GDP



Balance of current account



Source: EIU, IWF, Weltbank

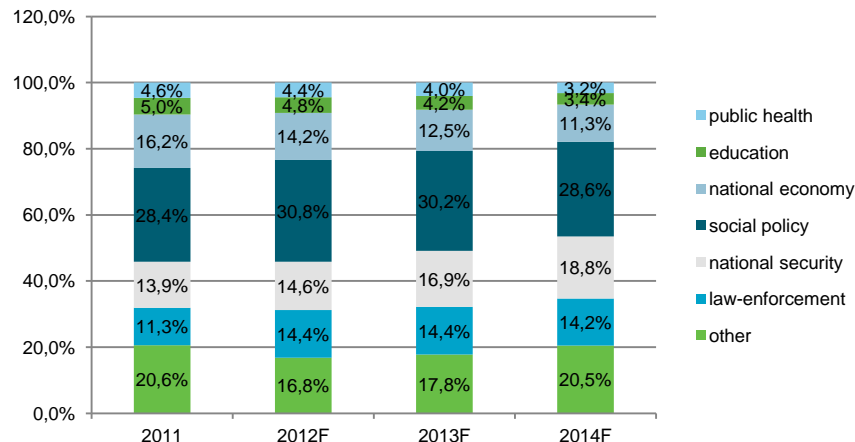


Macro economic indicators 2012

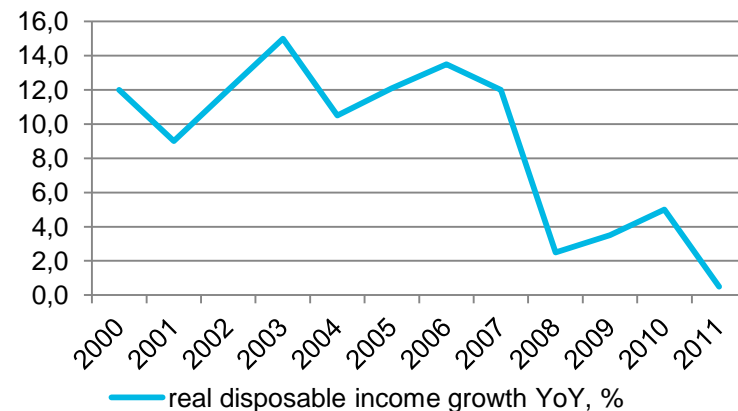
Decline in salary growth

- The state budget is oriented on military (+4.9%) and law-enforcement authorities (+2,9%)
- The social area will be restrained by adverse long-term effect on national education and public health service
- Potential dissatisfaction of citizens caused by the low real incomes level
- No positive impacts from state budget can be expected (social housing market)

Structure of budget costs, 2011-2014



Real disposable income growth YoY, %



Source: Russian Ministry of Finance



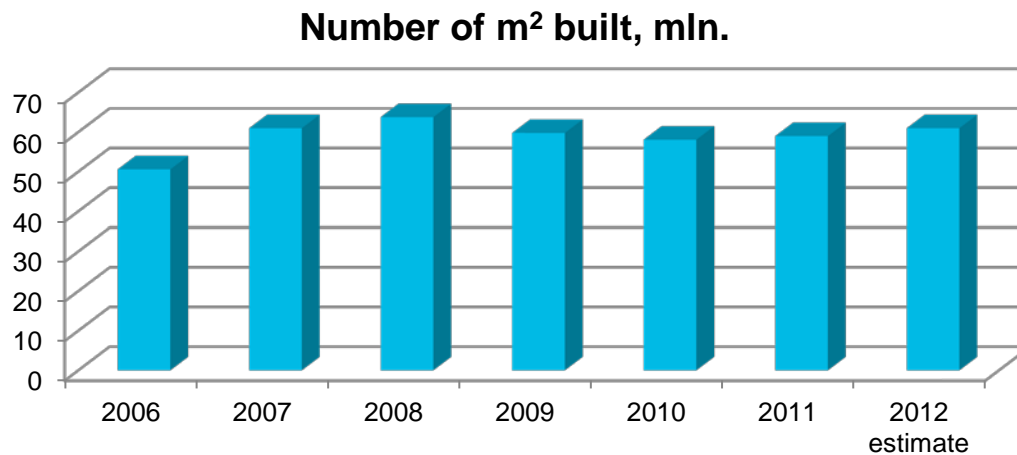
Russia: Half empty or half full?

- The WTO entry will increase reform momentum
- Russia has third largest financial reserves (oil and gas) and low state debt
- World's biggest energy and metal producer/exporter
- Middle class sector is increasing but still small
- No. 9 in world ranking of leading industrial countries (GDP) with a population of 140 million with expected GDP growth averaging 4.5-5.0% per year until 2012

Construction Market

General development in Russia

- Vision for Russian housing market is announced in 2020 Master plan with the aim to have same living standards as in western Europe (30-35 m²/person). In Russia: 22m²/person.
- To reach Government target, construction activities should be tripled to 150m m² per year from today's approximately 50m m² → realistic?
- Gap between political vision and economical possibilities is significant



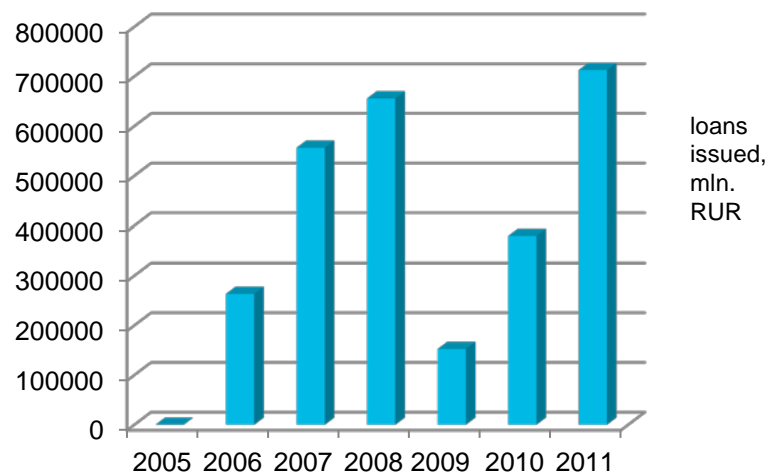
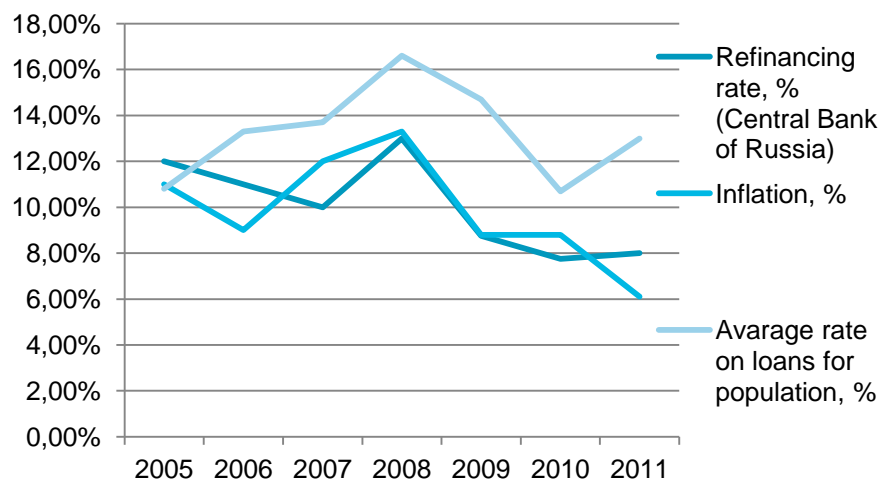
Source: Russian Ministry of Finance



Construction market

Mortgage growth

- The real income of citizens is still on a low level
- To motivate economical development , the Central Bank of Russia is permanently decreasing the refinancing rate – banks are following this tendency decreasing their loan rates by expected growth of loans issued



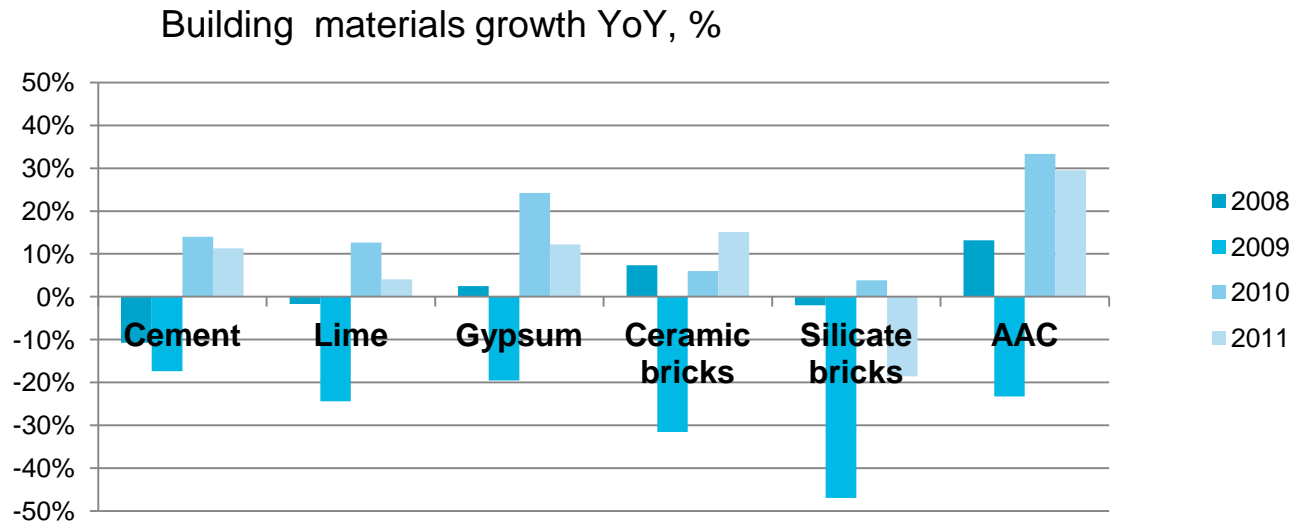
Source: Russian Ministry of Finance



Construction market

Building materials are back on track

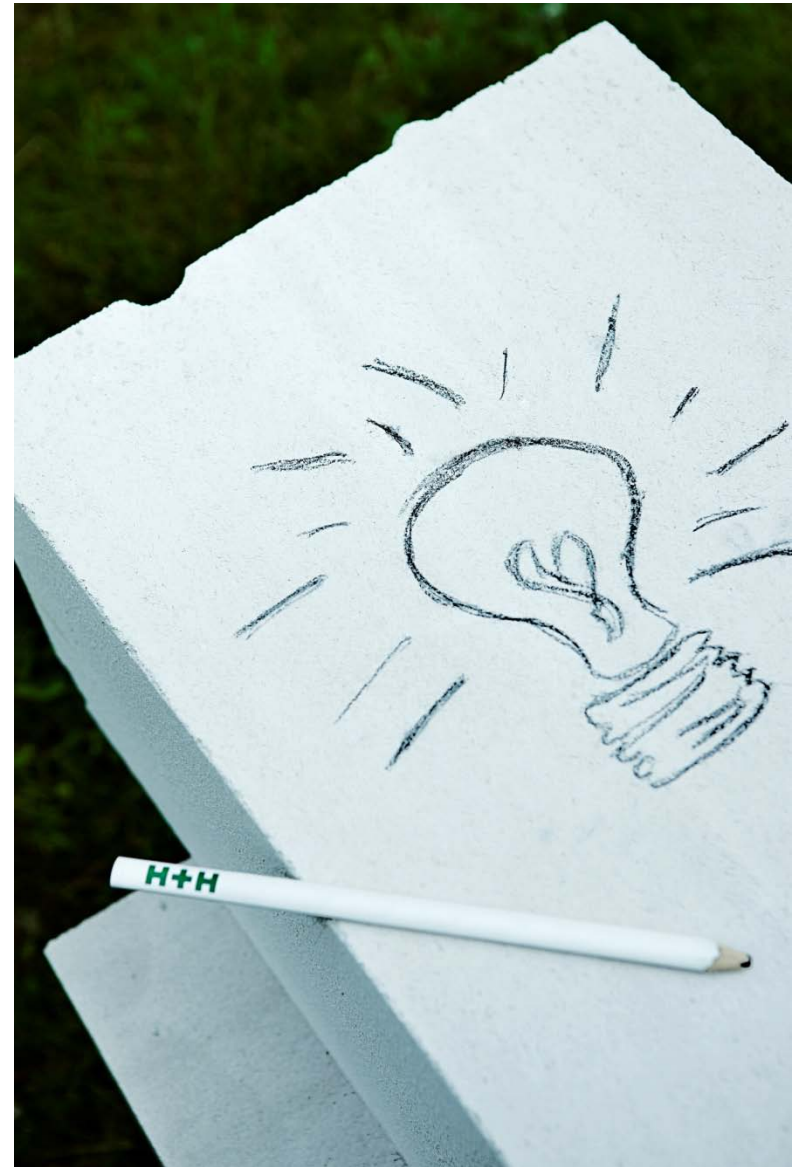
- AAC recovers very quickly after the crises
- New construction is majority compared to mature markets
- Due to necessity of energy saving Russian building codes become more heat resistance friendly



Construction Market

Focus on energy saving

- Government is focusing more on accentuation of building codes
- Russian State Program on Energy Savings and Efficiency aims to reduce energy intensity by 40% towards 2020
- According to the World bank, Russia waists enormous energy compared with the total consumption in France



Housing market (high-rise | low-rise)

Key drivers for North-West market

- St Petersburg as a metropolis with its attractiveness as a job machine and cultural offers
- People with high income and access to financing (low-rise, family houses)
- High amount of immigrants (1.5 million people as of 1 January 2012) with high demand for living space (high-rise, multi dwelling)



Clear target groups

Focus on success



High-rise

- High need for living space (low-standard class)
- Low costs
- Permanent construction (no seasonality)



Low-rise

- Comfortable living conditions (middle and upper middle class)
- High margin customers
- Seasonable construction



Stocking BM & DIY

- Growing outlets
- Good local and regional covering
- More and more professional



Autoclaved Aerated Concrete (AAC)

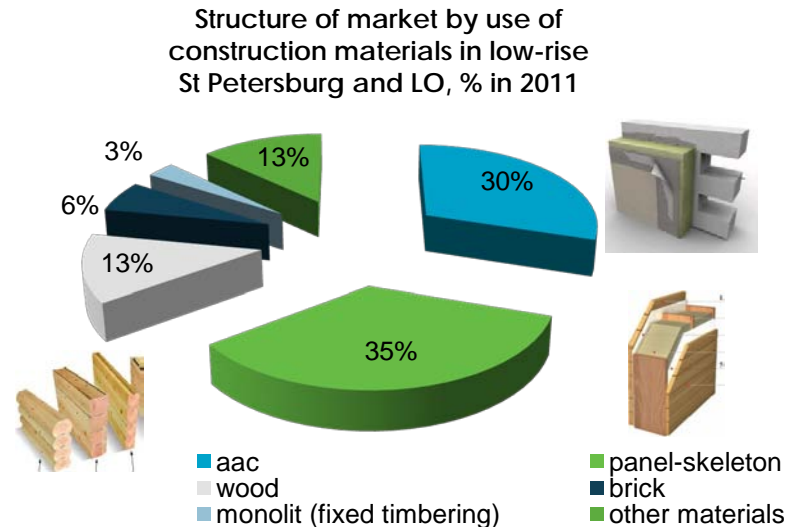
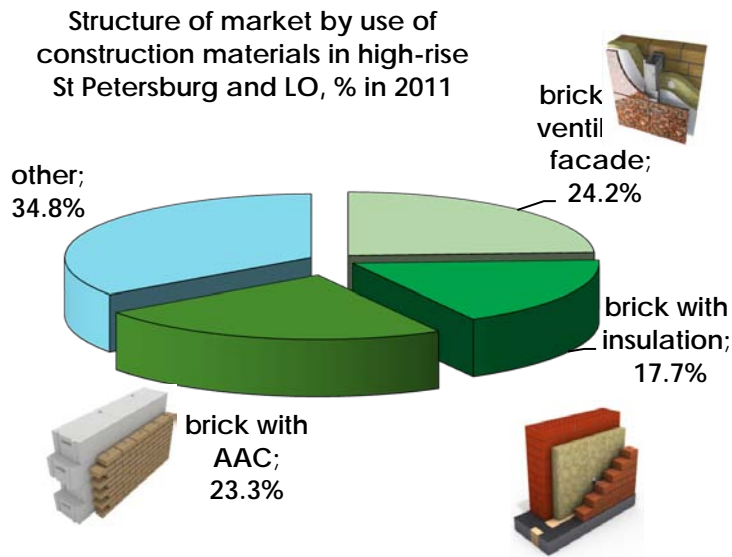
Competitive product in wall building market

Type of wall							
0							
Description	AAC D600, 625*250*300 mm Insulation 100 mm External plastering	AAC D400, 625*250*375 mm Facing bricks 120 mm	AAC D600, 625*250*300 mm Insulation 100 mm Ventilated facade .	Hollow ceramic brick 250*380*219 mm Insulation 200- 150 mm External plastering	Hollow ceramic brick 250*380*219 mm Insulation 150-200 mm Facing bricks 120 mm.	Hollow ceramic brick 250*120*65 mm Insulation 150-200 mm Ventilated facade .	Hollow silicate block 250*120*65 mm Insulation 200-250 mm External plastering
Demanded resistance to heat transfer for walls in St Petersburg is $R=3,08 \text{ m}^2\cdot\text{C}^\circ/\text{W}$							
Index of resistance to heat transfer, R	4.48	3.72	4.09	3,5	3.43	3.09	3.59
Average amount of m ² constructed (person per day)	8	8	8	5	5	5	7
Price of materials RUR/m ²	2,320	3,480	6,800	4,360	6,540	8,870	3,060



AAC market share in St Petersburg and Leningrad Oblast

Strong position in high-rise and low-rise



Source: Marketing research agency

- AAC solutions are getting more and more market in high-rise segment (33%) – monolith frame with AAC and brick facade (23,3%) substitute bricks as a main construction solution
- Single-family houses from AAC, which can be used both as a permanent living house as well as a datscha, have won their niche in middle and economy segments (30%) replacing cheap (datschas) solutions from panel-skeleton

Competition in North West region

- ① H+N
- ② Aeroc
- ③ Stroykomplekt
- ④ EAB
- ⑤ KZHBI2011



Capacities of wall building materials

Production facilities show already high level of utilisation

Type of construction materials	Production capacity,m3	Sales, m3			Utilisation
		2009	2010	2011	
Bricks and construction elements, total	1.373.000	788.000	837.000	927.000	68%
Hereof silicate bricks	160.000	133.000	139.000	154.000	
Hereof ceramic blocks	1.213.000	665.000	698.000	773.000	
Pobeda	625.500	372.000	375.000	418.000	
Petrokeramika	150.000	93.000	98.000	98.000	
Etalon	87.500	68.000	70.000	70.000	
Others (import)	350.000	132.000	155.000	187.000	
Aircrete, total	1.325.000	537.000	795.000	998.000	75%
H+H	400.000	80.000	225.000	267.000	
Aeroc	400.000	367.000	335.000	381.000	
Stroykomplekt	180.000	0	5.000	65.000	
EAB	165.000	50.000	90.000	130.000	
KZHBI 2011	180.000	40.000	140.000	155.000	



Bright outlook in a challenging market

- H+H has an expected annual increase in sales volume of 8-12% the next years
- H+H keeps an eye on market tendencies and plays a leading role in pricing, creating new solutions for better usage of AAC in housing construction
- Prices are expected to increase more than inflation the coming years.

Q & A

