

Russia's Next Generation

The nation's rising business leaders combine an appreciation of Western ideas with an understanding of the local market.

By Craig Mellow

ILLUSTRATION BY BRIAN CAIRNS

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or years investors looking for Russian exposure have focused on the country's oil producers and other natural-resource plays. But with Russia's consumer sector increasingly driving growth, a new generation of chief executives is emerging armed with experience in, and enthusiasm for, Western-style capitalism and marketing.

Anton Artemiev typifies this new breed: young, ambitious and possessed of an entrepreneurial spirit to rival that of any Western CEO. Artemiev, 46, is president of Baltika Breweries, Russia's biggest beer producer and the manufacturer of the second most popular beer in Europe (after Heineken). The St. Petersburg-based company has enjoyed phenomenal growth since Artemiev took the helm in January 2005. Under his guidance, Baltika has introduced new products, merged

with former rivals Pikra Brewery, Vena Brewery and Yarpivo Brewery — the unified company now controls 36.9 percent of Russia's beer market — and begun construction of an 11th facility, in western Siberia. Company profits climbed 42.4 percent last year.

"Under Artemiev, Baltika has managed to grow market share and keep costs under control, while also sharing all of its plans with investors," notes Michael Kotlov, chief of equities at Azhio Finance Co. in Kirov.

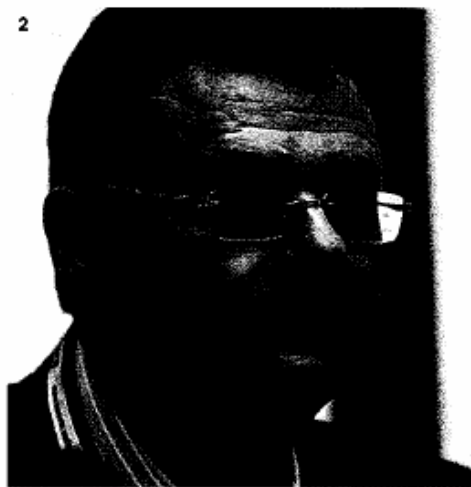
Investors like Kotlov are clearly impressed with Artemiev's accomplishments. They named him the best chief executive in the country's all-important Consumer sector in *Institutional Investor's* fourth annual survey of Russia's Top Business Leaders. "Everybody understands that the consumer element of the economy is incredibly powerful," observes Peter Halloran, president of Moscow-based Pharos Financial Group, which has \$250 million invested in Russian equities. "There, management is the only thing that matters." The consumer sector advanced 58.8 percent for the 12 months ended in mid-June, as measured by the Russian Trading System consumer index, while the broad market gained 41.6 percent.

To identify which business leaders are considered the best, we surveyed more than 280 research analysts and money managers at some 220 firms overseeing a combined \$20.8 billion in Russian securities. The top-rated Russian business leaders in seven sectors appear in the table on page 68; additional information, including the survey's methodology, can be found on our Web site, www.iimagazine.com.

The key to success in Russia, Artemiev notes, is constant innovation. New products introduced last year include Baltika Cooler, a premium beer marketed to young adults, and king-size, one-liter cans of the brewer's signature beer, Baltika. "The Russian consumer likes sizable packages," he says. "It makes him feel proud."

Artemiev, who earned a Ph.D. in geography from Leningrad State University, began his association with Baltika in 1992, while working as director of Russian operations for French consulting firm Brossard Consultants (now Gemini Consulting). He helped the company launch Baltic Beverages Holding and guide its growth until 2000, when he joined the brewery full time. Now that "things are going so well," Artemiev says, his toughest task is not resting on his laurels

Things are also going well for Alexander Izosimov,



“**Human capital is the biggest bottleneck in Russia. The economy is on steroids, and everybody needs people.**”

— Alexander Izosimov, VimpelCommunications

the 43-year-old CEO of VimpelCommunications, who investors voted the top chief executive in Telecommunications. Well-versed in Western marketing ideas and approaches, Izosimov earned an MBA at France's Insead and worked for management consulting firm McKinsey & Co. in Stockholm, Sweden, and London and

then the Russian division of U.S. candy manufacturer Mars before joining the Moscow-based cell phone service provider in 2003. He has since built VimpelCom's Beeline network into Russia's first superbrand, with a zingy black-and-yellow-striped logo that is recognized nationwide.

"We've succeeded in developing emotional involvement," says Izosimov. "People get a bright, happy feeling being part of Beeline."

Investors apparently do, too. VimpelCom shares soared 134.9 percent for the 12 months ended mid-June, well ahead of the sector's 88.0 percent advance, and profits rocketed 246.6 percent from 2003 through 2006, more than triple the 107.9 percent growth of rival Mobile TeleSystems. "Izosimov was a daring and inspired choice for CEO as someone from the consumer goods sector, not telecommunications," says Thomas Adshead, head of research at Alfa Capital in Moscow, which oversees \$800 million in regional equities. "His branding strategy was controversial,



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1 DMITRY ORLOV

The chief executive of Bank Vozrozhdenie believes "the quality of management in Russian companies is improving."

2 ANATOLY BUSHIN

The leader of OGC-5 "is a great example of how guys are emerging in the top ranks who are actually in a position to add value," observes one investor.

3 ANTON ARTEMIEV

The president of Baltika Breweries "has managed to grow market share and keep costs under control," says a money manager.

4 ALEXANDER IZOSIMOV

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but now everyone is trying to copy it."

Izosimov is not short of plans to keep VimpelCom growing — wireless broadband, for instance, and expansion into still-near-virgin cellular markets like Kazakhstan — but says it is hard to find qualified subordinates. "Human capital for middle and senior management is the biggest bottleneck in Russia," Izosimov notes. "The economy is on steroids, and everybody needs people."

Slowly but surely, they are arriving. "The quality of management in Russian companies is improving with the appearance of young top managers who combine Western education with an understanding of the national market," says Dmitry Orlov, chief executive of Bank Vozrozhdenie, who, at 63, cuts an unusual figure these days on Russia's young and stormy capitalist landscape. Orlov, who earned a finance degree at the Moscow Financial Institute and is the former head of the Moscow regional division of the former Soviet Agroprombank, has been at the helm of Moscow-based Vozrozhdenie since its founding in 1991.

The CEO, who is ranked No. 2 in the Financial Services sector, has alerted investors that giant, state-run Sberbank is not the only banking play in Russia. Vozrozhdenie, which has been cashing in on the consumer-spending boom through mortgage lending and credit card issuance, saw its profits rise 60.8 percent last year, to \$30.4 million from \$18.9 million in 2005. The bank's assets increased by 63 percent in 2006 and its market capitalization more than doubled, to \$1.2 billion. Last August the bank sold 10 percent of its shares in a private placement for 1.46 bil-

lion rubles (\$54 million), bringing institutional investors' stake in Vozrozhdenie to 24 percent.

New companies are bringing in new managers who are rising to the top by paths more recognizable to international investors — as entrepreneurs or executives for hire rather than as state appointees or "red directors" who hung on to their Soviet-era chairs. That is raising everyone's game, investors say. "Managers in the public sector know they have to be palatable to the West," says Alfa Capital's Adshad.

One such up-and-comer is Anatoly Bushin, 41, chief executive of Fifth Wholesale Generating Co., or OGC-5, and the No. 2-ranked executive in Utilities. Of the six generating companies created by the dismantling and privatization of Russian utility monopoly Unified Energy System, OGC-5 was the first to go public. "The once-popular term 'red directors' is not relevant in today's Russia," declares Bushin, who has overseen a 270.8 percent rise in OGC-5's shares from its initial public offering in September 2005 through mid-June. Bushin, who holds a Ph.D. from Moscow's Academy of National Economy, "is a great example of how guys are emerging in the top ranks who are actually in a position to add value, even in a state sector like electricity," says Pharos's Halloran.

Four of Russia's five biggest companies by market capitalization are state-owned: natural-gas monopoly Gazprom, top oil producer Rosneft Oil Co., Sberbank and UES. State-company CEOs are affected by the general sharpening of competition and improvement of management in Russia, say investors, but a bit

less urgently than their private sector counterparts. "They are appointed by a political, not a commercial, process," Adshad observes. "They are not necessarily profit maximizers."

One happy exception, according to many fund managers, is Sberbank's Andrei Kazmin, who over a decade as CEO has forced modernity into the bank's Soviet DNA and delivered world-beating multiples. Kazmin, 49, the top-ranked executive in Financial Services, "is very impressive," says John Connor, manager of Richmond, Virginia-based Third Millennium Russia Fund, which has \$140 million invested. "He cut the number of Sberbank branches from 36,000 to 22,000 and is delivering return on equity of 3 percent. That's amazing."

Russian companies, state-owned or otherwise, will need to keep delivering positive returns for investors to justify the risk of putting money into a country that seems bent on modernizing strictly on its own terms. And President Vladimir Putin's scheduled exit from the Kremlin next March calls into question what

those terms will be. But investors are optimistic. "Many corporate leaders in Russia are as good as you have anywhere in the world," says Alexander Branis, a portfolio manager at Prosperity Capital Management in Moscow, which controls more than \$4 billion in Russian securities. "The only thing they lack is the international dimension."

But they are learning fast. Evraz Group, a Moscow-based steel producer whose CEO, Alexander Frolov, takes the top spot in Industrials, made two multibillion-dollar acquisitions abroad last year: Oregon Steel Mills in the U.S. and Highveld Steel and Vanadium Corp. in South Africa. Norilsk Nickel, whose CEO, Denis Morozov, takes second place in Metals & Mining, agreed last month to spend C\$6.4 billion (\$6.0 billion) to buy Canada's LionOre Mining International. VimpelCom's Izosimov spoke to *II* en route to China "to have a look around at what's happening."

Still, if they truly want to be world-class, Russia's business managers must overcome deeply ingrained Soviet habits in their

organizations — habits that are getting more expensive to support. "I see incredible inefficiency and bureaucracy in almost all Russian companies," says Pharos's Halloran. "Wage costs are rising 20 percent a year, but head counts are still ridiculously bloated. People are not multi-tasking." However, this status quo leaves plenty of room for improving company performance with basic management adjustments, he adds.

One thing is certain: Russia's business evolution cannot be reversed or channeled through the administrative traps that have put the brakes on political democratization. Absent wholesale property expropriation, which no one near power in Russia advocates, the private sector will continue to evolve and produce more impressive business leaders. "You used to think of Russian managers as oil guys or metals guys who understood production but not everything else," says Third Millennium's Connor. "The most impressive ones have become real CEOs who can run a modern corporation and meet a budget."

This ranking was compiled by Researcher Svetlana Anoschenko under the guidance of Director of Research Operations Group Sathya Rajavelu and Senior Editor Jane B. Kenney.

RUSSIA'S TOP BUSINESS LEADERS

When we asked portfolio managers and analysts at major institutional investors to name Russia's best business leaders, the executives listed below (by sector) scored the highest.

Sector	Rank	Name	Company
CONSUMER	1	Anton Artemiev	Baltika Breweries
	2	Tony Maher	Wimm-Bill-Dann Foods
	3	Artem Bektemirov	Pharmacy Chain 36.6
	3	Liv Khoss	X5 Retail Group
	5	Galina Iyashenko	Seventh Continent
FINANCIAL SERVICES	1	Andrei Kazmin	Sberbank
	2	Dmitry Orlov	Bank Vozrezhdenie
INDUSTRIALS	1	Alexander Frolov	Evraz Group
	2	Yarim Shvetsov	Severstal-Auto
	3	Konstantin Samerikov	Trubnaya Metallurgicheskaya Co. (TMK)
	4	Eric Eberhardson	Gaz Group
	5	Oleg Demchenko	Irkut Corp.
	5	Felix Lubashevsky	Integra ¹
METALS & MINING	1	Alexey Lopatin	Novolipetsk Steel
	2	Denis Morozov	Norilsk Nickel
	3	Viktor Rashnikov	Magnitogorsk Iron and Steel Works
	4	Alexey Mordashov	Severstal
	5	Evgueni Ivanov ²	Polyus Gold Mining Co.
OIL & GAS	1	Vagit Alekperov	Lukoil Oil Co.
	2	Sergey Bogdanichkov	Rosneft Oil Co.
	3	Alexey Miller	Gazprom
	4	Leonid Mikhelson	Novatek
	5	Robert Dudley	TNK-BP Holding
TELECOMMUNICATIONS	1	Alexander Izosimov	VimpelCommunications
	2	Leonid Melamed	Mobile TeleSystems
	3	Jean-Pierre Vandromme	Golden Telecom
UTILITIES	1	Anatoly Chubala	Unified Energy System
	2	Anatoly Bushin	Fifth Wholesale Generating Co. (OGK-5)
	3	Vladimir Khlebnikov	First Wholesale Generating Co. (OGK-1)

¹ Integra's initial public offering was on February 22, 2007, on the London Stock Exchange.

² Pavel Skifovich succeeded Evgueni Ivanov as chief executive on May 29, 2007.