

THE NEWSLETTER OF THE INVESTMENTS AND INNOVATIONS PROMOTION DEPARTMENT
OF THE CHAMBER OF COMMERCE AND INDUSTRY OF THE RUSSIAN FEDERATION



INVESTMENTS. FACTS AND COMMENTS

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The newspaper comprises open source materials..

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As an addendum to this issue we present you investment projects, the presentation of which was held at the CCI of Russia on the 15th December, 2014.

Subcommittee for developing fishery in Russia of the Committee of the CCI of Russia for developing agriculture

IMPORT SUBSTITUTION FOR INGREDIENTS OF FORAGE FOR CATTLE BREEDING AND AQUACULTURE

PROJECT OF TRADE AND TREATMENT OF RESOURCES OF ANTARCTIC KRILL FOR FEEDING STUFF

INTRODUCTION OF THE PROJECT WILL ALLOW A COMPANY TO INCREASE SEVENFOLD OR EIGHTFOLD THE RELEASE OF FEEDING FLOUR AT THE EXPENSE OF KRILL RESOURCES



LLC "LENAVITA"

PRODUCTION OF Dihydroquercetinum and FEEDING ADDITIVES AND COSMETOLOGIC SUBSTANCES BASED ON IT

the Republic of Sakha (Yakutia)

TECHNO PARK YAKUTIA

MITEKO

Project of creating a cattle fattening complex in the Republic of Kalmykia



LLC "AFIPSKIY ENERGOPARK"

CREATION OF AN AGRICULTURAL TECHNOPARK BASED ON THE PROPERTY COMPLEX OF LLC "AFIPSKIY ENERGOPARK"

Krasnodar territory
2014



Mini-polis "KUB-A"



Uspensk treatment complex



If you're interested in implementing the projects and also in additional information, please address Investments and Innovations promotion department of the CCI of Russia
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1. INVESTMENT RATINGS: DIRECT INVESTMENTS OF TRANSNATIONAL CORPORATIONS



35% of world's direct investments fall to the share of Asia. Europe (29%) occupies the second position. The IBM annual report Global Location Trends 2014 contains such data. It has an analysis of distributing investments of transnational corporations by various countries, assessing levels of investing in the following spheres such as services, research and development.

Transport, tourism, chemical production, electronics, IT and industrial production were the most appealing spheres for investing.

The new report pays a lot of attention to such an indicator as growth of the number of jobs created as a result of foreign direct investments. The USA took the first place by that indicator last year, China occupied the second. Russia managed to improve its indicator by one step and occupied the 8th place. But Moscow looked even better. The capital stepped up by 11 positions and occupied the 8th place in the rating of cities according to the number of projects created with foreign direct investments.

TOP 15 CITIES BY ATTRACTED FOREIGN INVESTMENTS

Source: Global Location Trends: 2014 annual report



Moscow in the Russian Federation is a place of concentration of almost all financial resources. Most companies are registered there and the authorities are located there. The process of decentralization has started now, which, in the long-term perspective, should lead to a rapid development of other cities-millionaires. But now even Saint-Petersburg is not a match to Moscow in terms of absolute figures. Kazan, having its own way, is developing rapidly. Our southern cities have high prospects.

However, the situation in the political arena obviously does not favor investors aimed at the Russian market. Experts suppose that the total volume of foreign investments will remain at the previous year's level according to an optimistic scenario. It will go down by 20-25% according to a pessimistic one.

Because of the sanctions and uncertainty, Russian companies do not appear to be the best direction for investing. The consumer sector remains the one capable of attracting some investments; especially companies dealing with product manufacturing and selling.

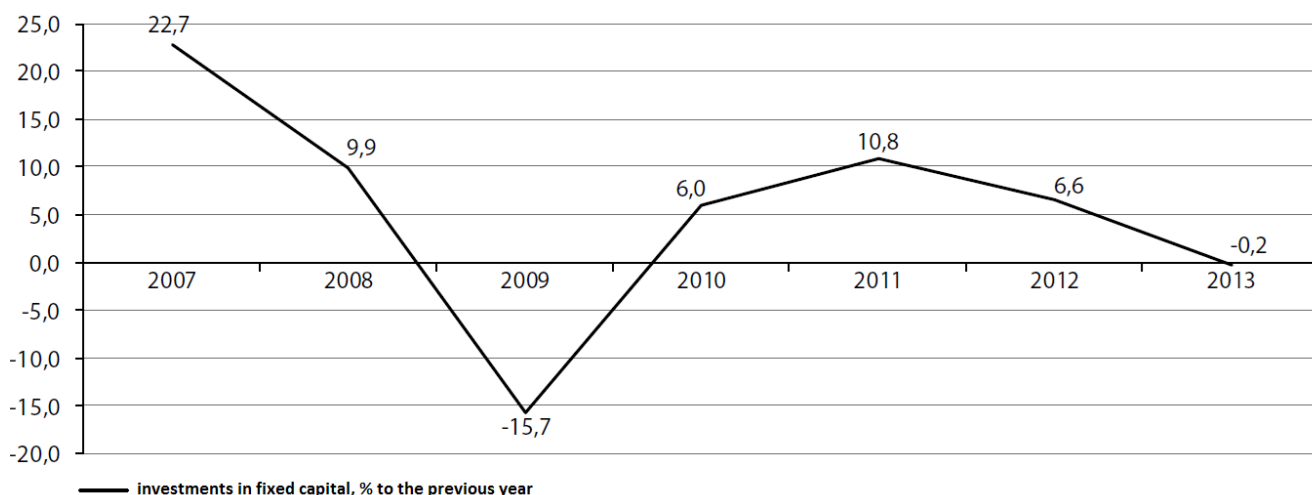


2. RUSSIA'S BANKING SECTOR: NEW PRIORITIES.



The banking sector entered a period of a large-scale reconstruction, which will last till the middle of 2015 at the minimum. Banks will have to re-adjust their business-models for new game rules, i.e. the squeezing of possibilities for extensive growth, worsening of the asset quality, systematic shortage of liquidity and strengthening of a regulatory control.

The dynamics of investing in fixed capital has been negative for the first time since 2008-2009

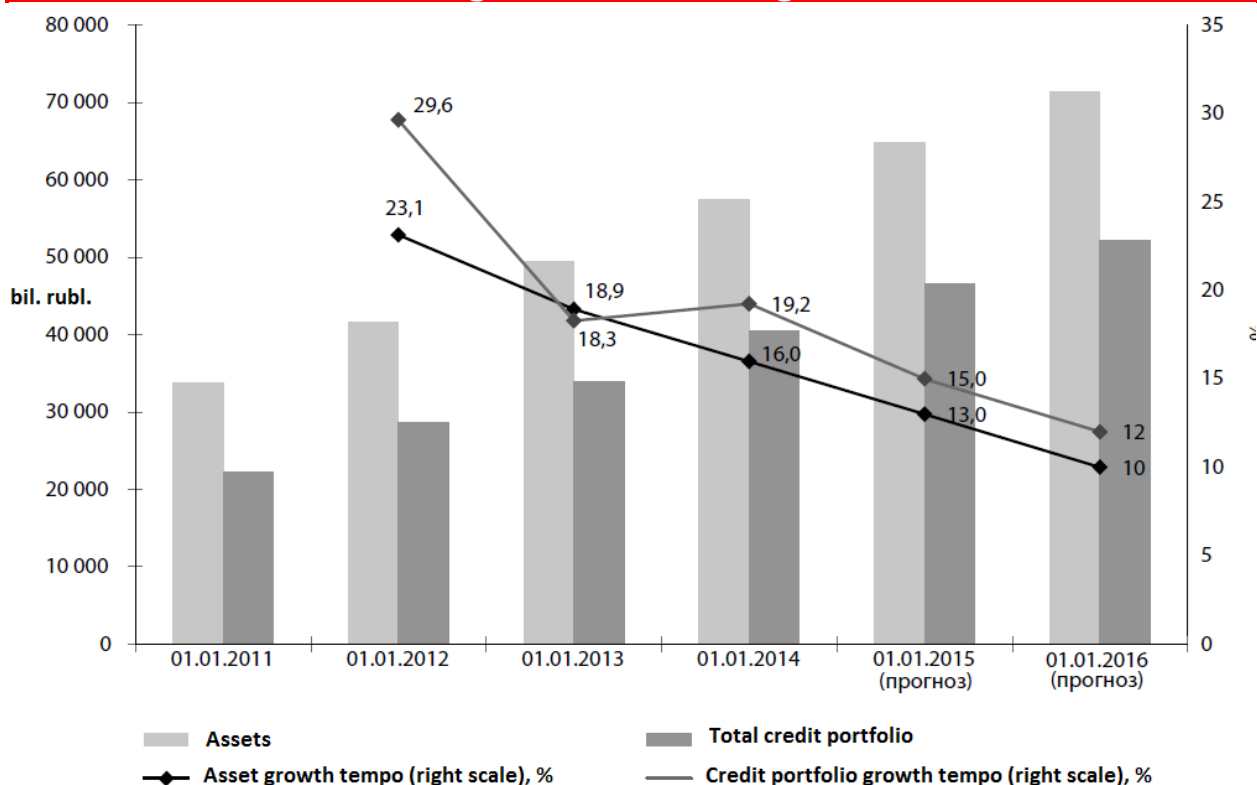


The reconstruction will be accompanied by the rise in the asset concentration and banks will have to limit the volume of high risk business, increase the share of commission profit, more actively work with SME and develop remote services.

In 2015 the banking sector is going to be developed within the conditions of an abrupt squeezing of possibilities for extensive growth, worsening of asset quality, systematic shortage of liquidity and strengthening of a regulatory control.

Russian banks will have to get accustomed to lower growth tempos and profitability, which will require their business models to be corrected and their risk-appetites to be decreased.

Serious slowing down of the banking sector in 2015



Cost optimization and business automation, asset diversification and reduction of the share of high risk business, growth of the share of commission profits are the key directions.

The retail crediting will decelerate the most in 2015 (to 20%). The worsening of the asset quality will impact all credit segments in 2015, except for mortgage. The economy stagnation and worsening of access to external funding will primarily hit large companies. Most banks will have to restructure large credits or refinance debts of such companies. Overdue debts in the unsecured retail will grow with high tempos.

Banking sector dynamics forecast for 2014–2015

	Expected growth tempo in 2014, %	Expected growth tempo in 2015, %
Loans to large companies	12	9–10
SME crediting	13	11–12
Lending to individuals	23	19–20
including unsecured consumer loans	23	18–19
including mortgage	28	23–24
Credit portfolio, total	15	11–12
Assets, total	13	9–10

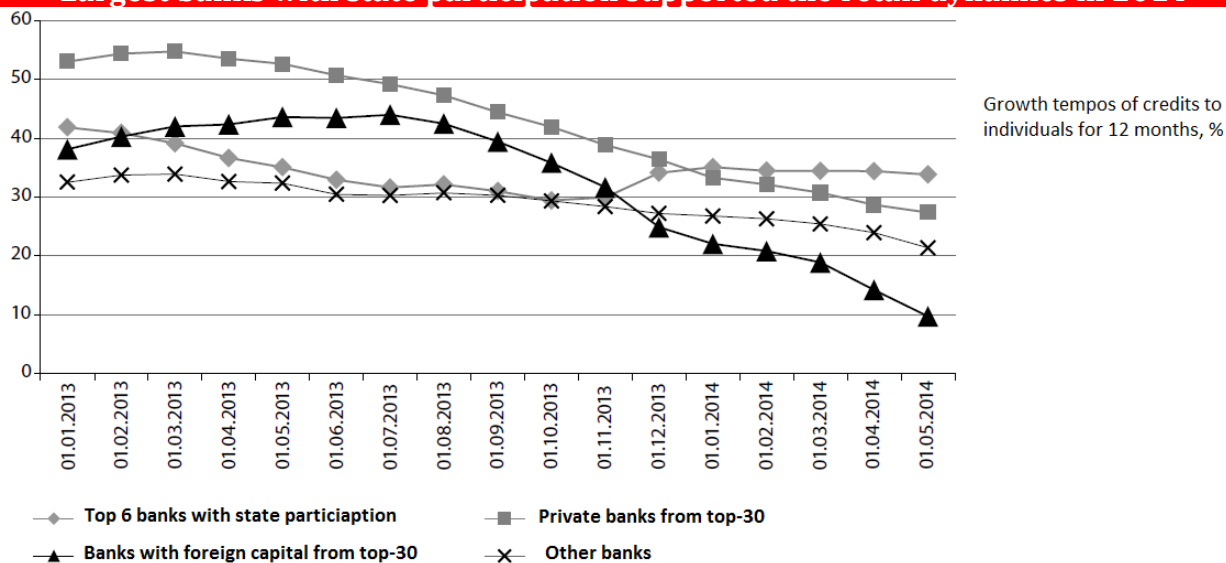
The systematic deficit of liquidity will remain till the middle of 2015, as a result of which the share of funds of the Bank of Russia in liabilities might grow to 10-11%. Regional banks are the most vulnerable. The concentration of accumulated funds in one-two regions enhances the subjection to local outbreaks of depositors' panic. Largest state banks, excessive liquidity to which it's more advantageous to direct not to the market of interbank crediting, but to implementing own retail projects. The refinancing is going to be redistributed unevenly in the system (over 70% falls to the share of largest banks with a state participation), and the intercreative market almost closes for small banks during panic periods. That's why they have to keep an excessive liquidity buffer.

A new policy of the Bank of Russia will decrease the attractiveness of crediting of related parties and executing dubious operations. Last May the criteria of high bank involvement in dubious operations was heightened (the maximum share of such operations was reduced from 5% to 4%). The standard of the maximum risk for related parties and more rigid criteria for regarding borrowers as related parties was taken.

As a "spice-cake" the regulator is expanding possibilities for banks to earn on REPO instruments, increasing refinancing volumes. The actions of the Central bank stimulate the banking business to reduce risk-appetites and for larger transparency, which in 1.5-2 years will increase the level of trust to the banking system.

The activity in the sphere of M&A banking deals will grow, owing largely to the utilization of a sanction mechanism. It will allow a turnaround bank to both divide risks of enlargement of business with the government and improve market positions thanks to familiarizing with a client bank of a sanified bank.

Largest banks with state participation supported the retail dynamics in 2014

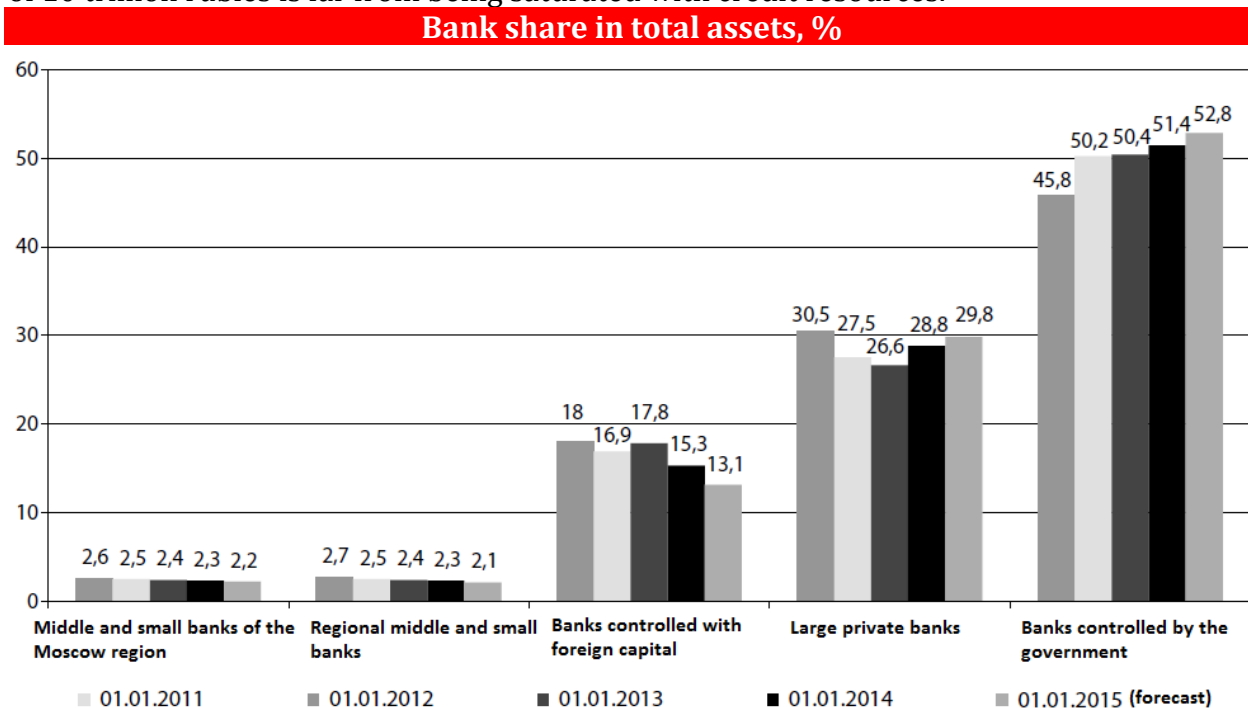


"Market" deals of M&A will more likely be rare. On the one hand the evaluation of asset quality is too complicated. The standard minimum for capital won't be the catalyst for of M&A growth. Most banks with capital less than 300 million already have specific plans to adjust it to the law requirements.

The development of the banking sector will be accompanied with a growth of asset concentration on large banks. Largest banks (private and ones with a state share) have already increased their share in the market thanks to the overflow of a part of population and company funds from small and middle banks.

The replacement of the external debt of large companies and also possibility of to obtain refinancing from the Central bank of Russia against the security of investment credits will give additional impetus to business. The profitability of retail banks and small regional credit organizations will be under pressure.

The first ones should concentrate on optimizing expenses and expanding cross-sells of non-credit products. Small banks will have chance to more actively credit SME as a result of shifting priorities of large banks toward large business. We also see the market of tender crediting as a growth point for small banks. The volume of the state order with a turnover of 10 trillion rubles is far from being saturated with credit resources.



3. STOCK MARKET: STIMULATION OF PRIVATE INVESTMENTS.



The main goal of an individual investment account (IIA) is to stimulate private investments in the stock market and to increase the number of private investors.

As market participants expect, with time, IIA might become a serious competitor to a deposit in a matter of 3-5 years.

The moment for launching the new instrument is relevant.

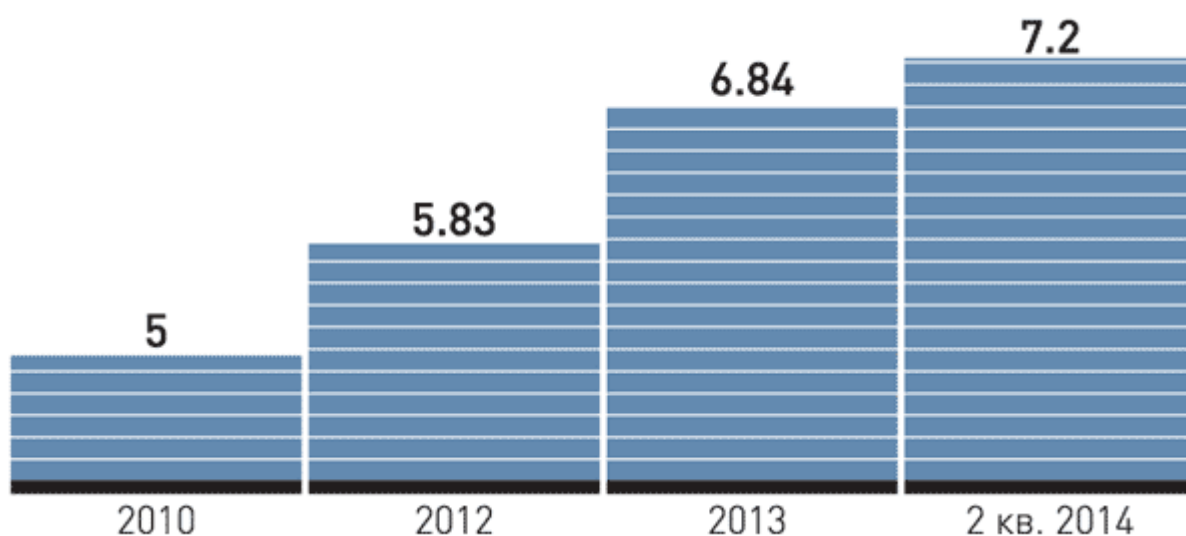


Experts notice that it's the first time this year funds inflow to deposits has been shifted with the outflow. The client themselves starts to search for new investing possibilities.

The main strong points of deposits are known, instrument comprehension, fixed profitability and, of course, the protection with a system of deposit insurance. A tax deduction should become the trump of IIA.

There are two types of deductions provided. An investor can choose only one. The first one allows to annually receive a 13% deduction on the sum deposited during a tax period of IIA. In other words, if 200 hundred rubles was deposited, then 26 thousand rubles will be refunded. The second type of the deduction provides that on the expiration of the IIA agreement (not less than in three years), all the received profit during the investment period will be tax-exempt.

The volume of assets of IRA (individual pension account, similar to IIA) in the USA, trill. dol.



A set of restriction has been approved as regards IIA. An individual is entitled to have only one agreement for managing such an account. Only funds can be put there and the total sum cannot exceed 400 000 rubles.

As far as possible investing instruments are concerned, by an experts' opinion, the main thing is not to overregulate IIA from start. However, by a market participants' opinion, professional participants, already having an investment portfolio, will be the first IIA clients.

4. ADVICE FOR A FOREIGN INVESTOR: HOW TO START A BUSINESS IN RUSSIA (continuation, beginning in the issues 34-38).

Taxation

Personal income tax (PIT)

PIT depends on the fact whether a natural person is a tax resident of Russia or not. A natural person is regarded as a Russia's tax resident if he's been staying in Russia not less than 183 calendar days during 12 months in row. The period of stay of a natural person in

Russia is not interrupted for a period of a short-term departure (not less than 6 months) abroad for education or treatment.

Entry days in Russia and departure from Russia are considered while calculating the period of stay of a natural person in Russia for establishing a tax status.

If an organization pays a salary to a natural person within Russia, then in order to utilize a correspondent withholding tax rate, it has to define the tax status of the natural person for every date of profit payment. When defining the tax status of the natural person, the duration of their stay in Russia must be taken into account, which must be 183 days during a 12 month period preceding the date of the profit received by the natural person. Therefore the sum of the withheld tax might not be final.

According to official interpretations of the Ministry of finance of the Russian Federation, the final sum of a tax liability is defined based on the tax status of the natural person in the report period. A natural person is considered a tax resident in case of stay in Russia during a 182 day period in the report calendar year.

Russian tax residents pay personal income on every profit regardless of a place of profit sources, whereas non-residents pay PIT only on profits received from sources in Russia.

Taxable base

A taxable profit includes profits received both in money and natural forms and also profits as lucre. When receiving profit in the natural form by a natural person, the taxable base is calculated based on the market value of goods received or rendered.

Profits received as lucre appear:

- When paying interest for using borrowed funds received from an organization or individual entrepreneurs at a rate below two third of the refinancing rate established by the Central bank for credits in rubles or below 9% p.a. for credits in foreign currency. The utilization of credit cards emitted by non-Russian banks is also considered a taxable profit received by card holders in the form of lucre.

- When purchasing goods and services at a beneficial price by natural persons from people who are interdependent toward the taxpayer.

- When buying securities and financial instruments at a price below the market.

Tax rates

All types of profits of tax residents are subjected to taxation at 13% PIT.

Individual tax rates are set for the following profit types:

- Dividends received by Russia's tax residents (both from Russian and foreign legal entities), also interest on certain debt securities are subjected to taxation at a rate of 9%;

- Some profit types which are not connected with a labor activity (for instance, material lucre from saving interest for using borrowed funds) are taxed at a 35% rate.

All types of profits of tax residents are taxed at a PIT rate of 30%. There are certain tax rates for certain profit types:

- Dividends received by individuals, being Russia's tax residents, from Russian organizations are subjected to taxation at a rate of 15%;

- Labor payment to foreign workers in Russia, non-residents of Russia having a status of highly qualified specialists, is subjected to taxation at a rate of 13%;

As a rule PIT is paid on most profit types by tax residents at a 13% rate.

Tax deductions

Standard tax deductions

Standard monthly tax deductions to a sum of 3000 rubles and 500 rubles are given to certain categories of taxpayers (ex-participants of war operations, invalids and so on). If a taxpayer has a right for several various deductions, then the larger of them is used.

Besides, a standard tax deduction to the amount of 1 400 rubles per month is granted to parents for the first and second child (at the age before 18 and at the age of 24 as regards people having a full-time study. A double tax deduction is given to one of parents when refusing a tax deduction by another and also to a single parent.

Those tax deductions are granted before the month, in which the total annual profit of a parent wouldn't exceed 280 000 rubles.

Social tax deductions

Social tax deductions are given to the sum of actually born expenses for charity, but not less than 25% of the profit sum received during the tax period. Social deductions are also granted as regards:

- Education expenses of a taxpayer and education of his/her every child;
- Treatment and medicine expenses and also treatment and medicine expenses for his/her wife (husbands, parents and children);
- Insurance fees paid by a taxpayer according to voluntary insurance agreements and also according to voluntary insurance agreements of his/her wife (husband), parents and children;
- Fees paid by a taxpayer to a non-state pension funds in their favor and also in favor of their wife (husband), parents and children-invalids;
- Additional insurance fees for a cumulative part of pension.

The listed deductions types are given to people, having the right for the deduction (except for expenditures on expensive treatment which is on the list of expensive types of treatment, approved by the government) to the sum not exceeding 120 000 rubles in total in one calendar year. For them the sum of a tax deduction is taken to the size of actual expenses. Expenses of a taxpayer on education of children are also subjected to deduction to the sum of actual expenditures but not less than 50 thousand rubles for every child.

Property tax deductions

Property deductions are given to the sum spent by a taxpayer for acquiring (constructing) an abode in Russia and also land plots for constructing an abode or purchased with an abode (to the sum not less than 2 mil. rubles). Also the deduction is given as regards interest on credits for acquiring and building of the abovementioned abode (with restriction).

When selling an abode or land plot, the deduction to the sum up to 1 mil. rubles is granted to the amount of expenses born for its acquiring or to the size of documentally confirmed expenditures connected with the receipt of the profit.

When selling another property, which has been owned by a taxpayer for not less than 3 years, the deduction is given to the sum of up to 250 000 rubles or to the size of documentally fixed expenses tied to receiving that profit

The profit from selling property, which has been owned by a taxpayer for at least 3 years, is tax exempt on condition that it's receive by a Russia's tax resident in the year, in which the selling is made.

Professional tax deductions

Professional tax deductions are given to those who implement their activity as an individual entrepreneur. They are granted as regards confirmed expenditures related to implementing such an activity. If expenses are not confirmed documentally, then the entrepreneur is entitled to use a professional tax deduction to the size of 20% of the profit from his/her entrepreneurial activity.

Professional tax deductions are also given to those who receive profits from a work execution (service rendering) under civil agreements. The deductions are given to the sum of documentally confirmed expenses related to a work execution (service rendering).

People receiving author's royalties have the right to use certain intellectual property, have the right for professional tax deductions to the size of their documentally confirmed expenses or in a fixed volume if the documents proving expenses are absent (to the sum from 20% to 40% depending on the type of intellectual property).

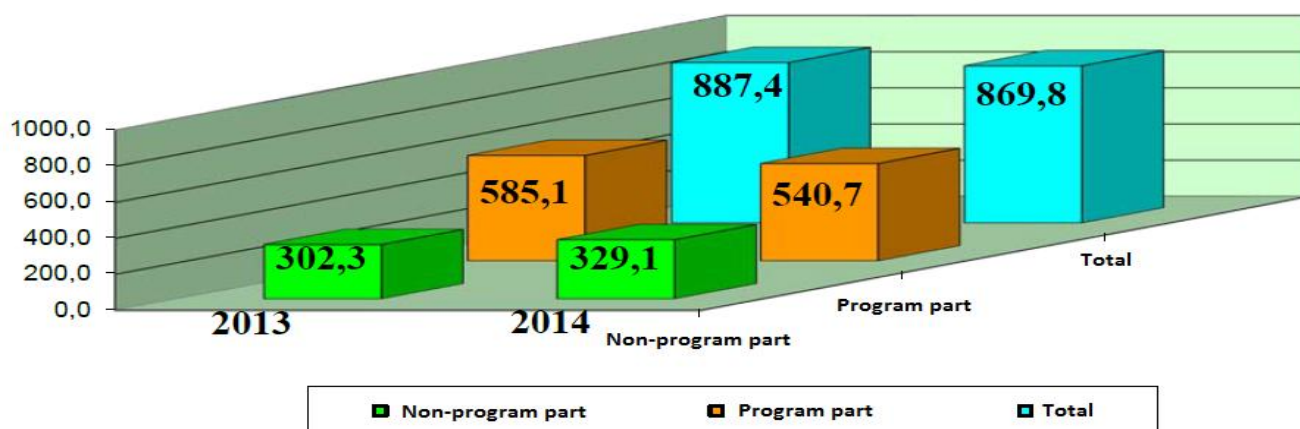
People rendering services or executing works on respective civil agreements have the right for a deduction of documentally confirmed expenses directly related to a work execution (service rendering).

Russia's tax residents have the right for standard, social, property and professional deductions.

5. ORDER OF RENDERING GOVERNMENT GUARANTEES FOR IMPLEMENTING INVESTMENT PROJECTS.

The procedure of granting government guarantees of the Russian Federation for credits or bond issues drawn for implementing investment projects and corresponding selection of investment projects and principal is regulated by the Rules of selecting projects and principals for granting government guarantees of the Russian Federation for credits or bond issues or implementing investment projects and corresponding selection of investment projects, approved by the enactment of the government of the Russian Federation from the 14th of December of 2010 № 1016 (the Rules) and the Order of granting government guarantees in 2013-2014 for credits or bond issues drawn by legal entities selected according to the order, approved by the government of the Russian Federation, for implementing investment projects, approved by the enactment of the government of the Russian Federation from the 14th of December of 2010 № 1017 (the Order).

Volume of budget funds for carrying out the Federal targeted investment program in 2013-2014 (as of the 1st of November, 2014)

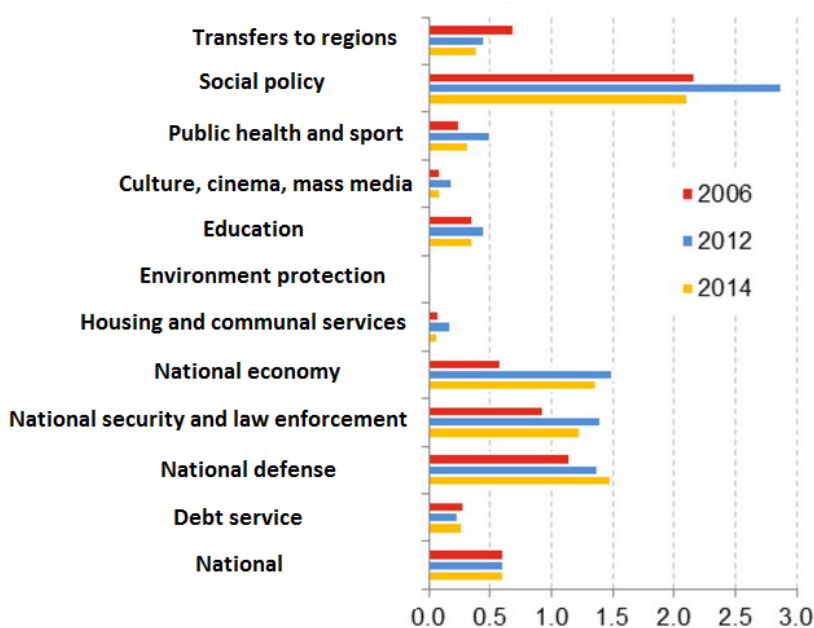


Subject to selection are investment projects (interconnected ones included) implemented with a modernization of Russia's economy, having public significance and meeting the Main directions of activities of the government of the Russian Federation and aimed at creating new and (or) reconstructing existing social, agricultural, industrial, communal and transport objects and their further exploitation, which are executed by a commercial organization, including a specially created one for implementing the project, and also projects in the spheres of energy efficiency and industry (the projects).

The main criteria of selecting the projects are:

- at least 15% of the total value of the project is funded by a principal at the expenses of their own means;
- total volume of state support rendered to a principal by the Russian Federation and (or) its regions for implementing a project in various forms, including funding by Vnesheconombank, does not exceed 75% of the total value of the project executed by this principal;
- the planned volume for financing the project at the expense of bond issues and (or) credits secured by the government, drawn for its implementation, amounts to 50% at the most of the total project value.

Utilization of oil and gas entries to the federal budget for financing certain expenses, in % of GDP



As regards projects in the sphere of energy efficiency

- full value of the project makes up at least 500 mil. rubles;


- the share of the government in the stockholders' equity of the principal is 49% at the most;

- the return (payback) of at least 80% of the total volume of invested funds is executed within 7 years at the expense of the reductions of consumption of energy resources and (or) water.

- investing is implemented in reconstructing and modernizing an existing infrastructure or entire replacement of the object of communal infrastructure against energy efficient one.

- the size of the possible reduction of consumption of energy resources and (or) water amounts to at least 15% in absolute figures per production unit.

**Financial aid to Russia's regions from the federal budget in 2013,
bil. rub.**

1	The Republic of Sakha (Yakutia)	67,1	
2	The Republic of Dagestan	60,4	
3	The Chechen Republic	53,3	
4	Moscow region	50,5	
5	Moscow	48,0	
6	Saint-Petersburg	44,4	
7	Krasnodar region	38,4	
8	Kamchatka	38,1	
9	Amur region	37,5	
10	The Republic of Tatarstan	36,4	

As regards projects in the spheres of energy saving and energy efficiency enhancement in the industry sphere:

- total value of a project amounts to at least 1 bil. rub;
- government share in the principal's equity is 49% at the most;
- return (payback) is at least 50% of the total volume of placed funds is executed within 5 years at the expense of cutting the consumption of energy resources and (or) water calculated per production unit.

- investments are implemented in reconstructing and modernizing actual production, including production lines, placed in operation not earlier than in the year preceding the selection.

- investments are implemented in fixed assets of the principal and as of the last report date the book value of the object of investments must exceed 1% of the book value of total assets or 5% of the book value of non-current assets.

- the size of a possible reduction of consumption of energy resources and (or) water makes up at least 10% in absolute figures calculated per production unit (according to an energy passport)











Concerning other projects:

- the full value of a project amounts to at least 5 bil. rub.

According to a stipulation 17 of the Order, the guarantee is provided for securing the fulfillment of an obligation by a principal (resident) on a credit drawn by a principal at a Russian bank in the currency of the Russian Federation.

According to the Rules, in order to partake in the selection, a project must have a conclusion of an authorized financial consultant, the candidature of whom must be coordinated with the Ministry of economic development of Russia.

The share of financial aid in regional profits in 2013, %

1	The Ingush Republic	85	
2	The Chechen Republic	81	
3	Tyva Republic	77	
4	The Republic of Altay	72	
5	Dagestan	70	
6	Karachai-Cherkess Republic	69	
7	Kamchatka Territory	65	
8	Jewish Autonomous region	58	
9	Kabardino-Balkarian Republic	56	
10	The Republic of North Ossetia-Alania	56	

The authorized financial consultant must meet one of the following criteria.

For projects in the sphere of energy saving and energy efficiency enhancement:

- working experience as a financial consultant for projects in the sphere of energy saving, energy, housing utilities services or industry to the sum at least 1 bil. rub. during three preceding years.

- project financing deals with a credit sum of at least 500 mil. rub. each, for which the consultant acted as a creditor or a financial consultant for attracting project financing.

- work experience as a consultant for projects in the spheres of transport, communal, social and industrial infrastructure to the amount of at least 5 bil. rub. each during three previous years.

For other projects:

- financial consultant must be in the top 10 largest financial consultants of such agencies and printed matters in Russia and (or) Eastern Europe as Dealogic and Project Finance Magazine;

- work experience as a consultant for projects in the spheres of transport, communal, social and industrial infrastructure to the amount of at least 5 bil. rub.

- project financing deals to the credit value of at least 2.5 bil. rub. each, for which the consultant acted as creditor or a financial consultant for attracting project, which reached a financial close during the last 12 months and the number of which made up at least 2 and at least 6 for the last 36 months.

After receiving conclusions from a financial consultant a principal forms a set of documents according to requirements of an addendum №1 of the Rules and submits it to the federal executive authority, which implements functions for elaborating a state policy and normative legal regulation in the sphere of project implementation (the authorized federal organ).

During 30 days from the day of submitting the documents by the principal, the authorized federal organ reviews the matter of compliance of the project and principal to the criteria, mentioned in the clauses 3 and 4 of the Rules, and sends its conclusion and documents to the inter-department commission for selecting investment projects and principals for granting government guarantees of the Russian Federation for credits or bond issues attracted for carrying out investment projects, established in accordance with

the order of the Ministry of economy development from the 18th of March, 2011 № 112 (The Interdepartmental commission).

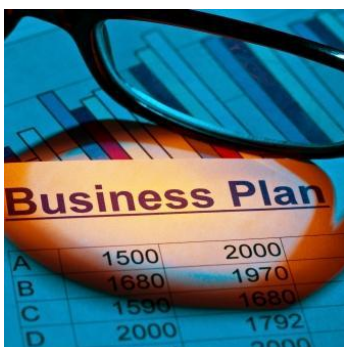
The Interdepartmental commission makes a decision about picking out projects to the value between 5 and 10 bil. rub. and a principal or about results of viewing projects to the value above 10 bil. rub. If the value of the project makes up over 10 bil. rub., the selection of projects is made by the Government commission for economic development and integration, established according to the enactment of the Government of the Russian Federation from the 30th of December, 2009 № 1166, by proposing of the Interdepartmental commission.

6. GUIDE FOR A BEGINNING ENTREPRENEUR: BUSINESS PLAN.

Dear colleagues!

Investments and Innovations promotion Department of the CCI RF regularly receives requests to help the preparation of a business plan for starting a business. During the year of 2013 we were introducing you typical plans, which allow drawing up your own document and, we hope, avoiding serious organizational mistakes at the stage of preparing a project. In this issue we present you the summary recommendations for preparing a business plan.

Every entrepreneur can tell with confidence that a precise plan of actions (business plan) is one of key conditions for creating and developing a successful business. It represents a step-by-step presentation of the structure of your business plan.



If you comprehend how to draw up a business plan right, then you can count on a positive result when addressing potential investors or a bank for a credit. Also, compiling a business plan promotes duly exposure of possible risks, defining the main indicators for carrying out control over a business. If you manage to draw up a business plan, then it will allow forecasting the development and defining further steps.

Business plan design

A business plan starts with a cover. You should be serious about the design, because a nicely designed document will help you draw potential investors. Original paper with a logo of your company should be utilized for the cover. When drawing up the document, headings should be underlined.

Business plan structure

So, the elaboration of the business plan starts with writing a summary. This section is very important. It's normally read first and you plan can be judged by it. It should encompass the following:

- Core of your business;
- Goals and tasks of your project;
- Financial data and economic possibilities;
- Calculation of the volume of investments, which will be put to business. Expected sales volume and revenue volume.

Project execution deadline

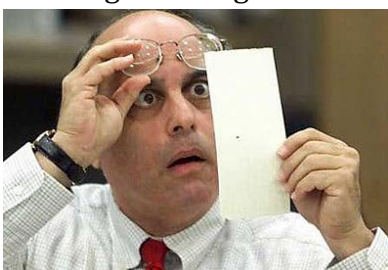
The company description should be the next step in drawing up a business-plan. You should more thoroughly tell about the production and rendered service, advertisement ways, project founders and personnel, about existing and planned partnership relations.



In order to make your business plan right, special attention should be paid to describing the production. The information about product name, special features, quality characteristics and its ability to meet requirements a competitive market should be indicated in this part. It can be done in the form of a graphic presentation, sample presentation, detail, photos and so on.

In your business plan you should lean upon data received while analyzing the market, i.e. on the results of marketing research, which refer to you product sales.

While developing a business plan you should thoroughly draw up a production plan and sales plan. Those segments are directed at grounding the level of demand and cost of production, characterizing a potential customer, describing aspects referring to the meeting of ecological norms and standards and all possible ways of selling the product.



Financial segment of a business plan represents a profit and loss account of the company, scheme of funds movement and peculiarities of the economic state of business today.

The segment should comprise:

1. Analysis of all tax payments;
2. Expenses required for project implementation;
3. Analysis of other possible expenses;
4. Profits and loss information;
5. Analysis of financial entries.

We've told you about what a business plan is and how it should be written correctly. We've indicated the main features, which you should pay attention to. As reality reveals, a correctly planned business is a key to a successful execution of goals and tasks set by you.

We draw your attention to the fact that the presented material is an example of a business plan. Therefore, all the numbers in it can be regarded as approximate, because the market and prices change constantly. But the business plan allows having an insight of steps to be taken for a successful launch of the described business and can serve as a good pattern for preparing your own business plan.

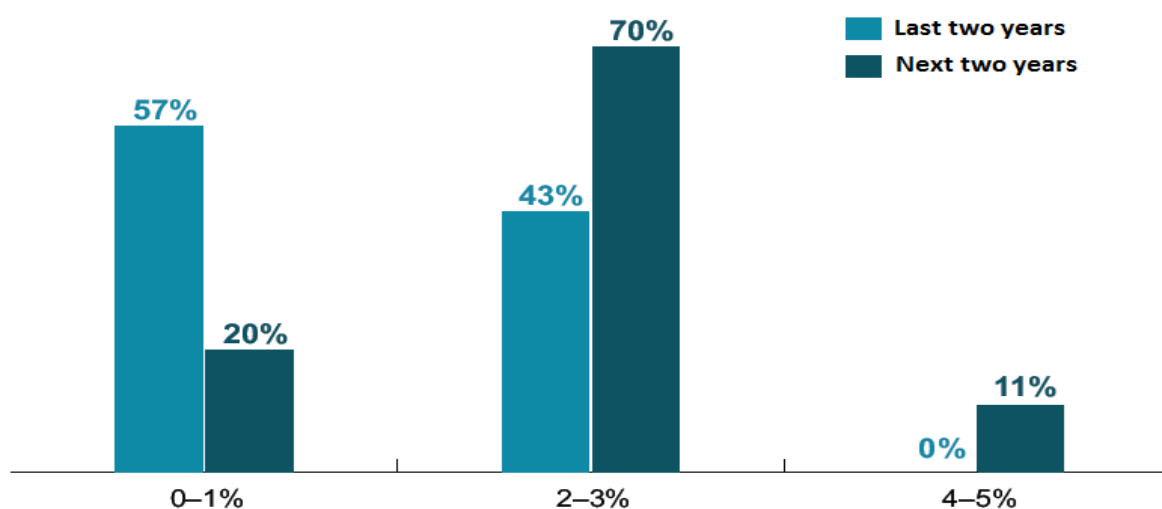
7. KPMG RESEARCH: PROSPECTS OF THE WORLD INDUSTRIAL SECTOR.

The research "Prospects of the world industrial sector" was carried out in 2014 based on a poll among 460 representatives of the top management of industrial companies. The participants of the poll represented five sectors, aerospace and defense sector, automobile industry, conglomerates, consumer sector, machine building and industrial production and metallurgy. 50% of the

respondents were top managers and one third of the participants represented companies, the annual revenue of which amounted to 5 bil. dol. USA. The respondents equally represented North and South America, Europe and Asia.

The section “Collaboration for innovations”. As the research shown, top leading manufacturers review their strategies of development of product lines and pay more attention to reasonable funds expenses, guideline for disruptive innovative solutions and learning new models of business collaboration for creative competitive edges.

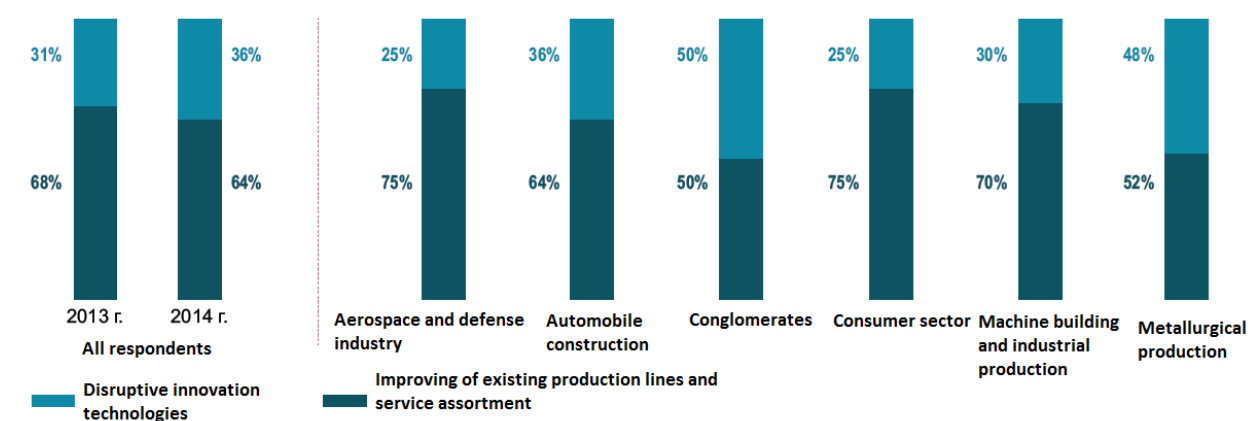
R&D expenses growth is forecasted



Note: the indicator in total can be below 100% due to percentage round-up
 Source: research made by Forbes, January, 2014

The poll revealed that manufacturing enterprises are aimed at quality changes of their growth prospects. Many defined an increase in investments in R&D as a top-priority task. And indeed, whereas most respondents declare that for the last two years they’ve been putting no more than 1% of their profit to R&D, the given results indicate that during the next two years these expenditures are likely to increase. One of ten participants responded that during the next two years they planned to spend up to 5% of the total profit in those goals.

What’s you main innovation strategy?

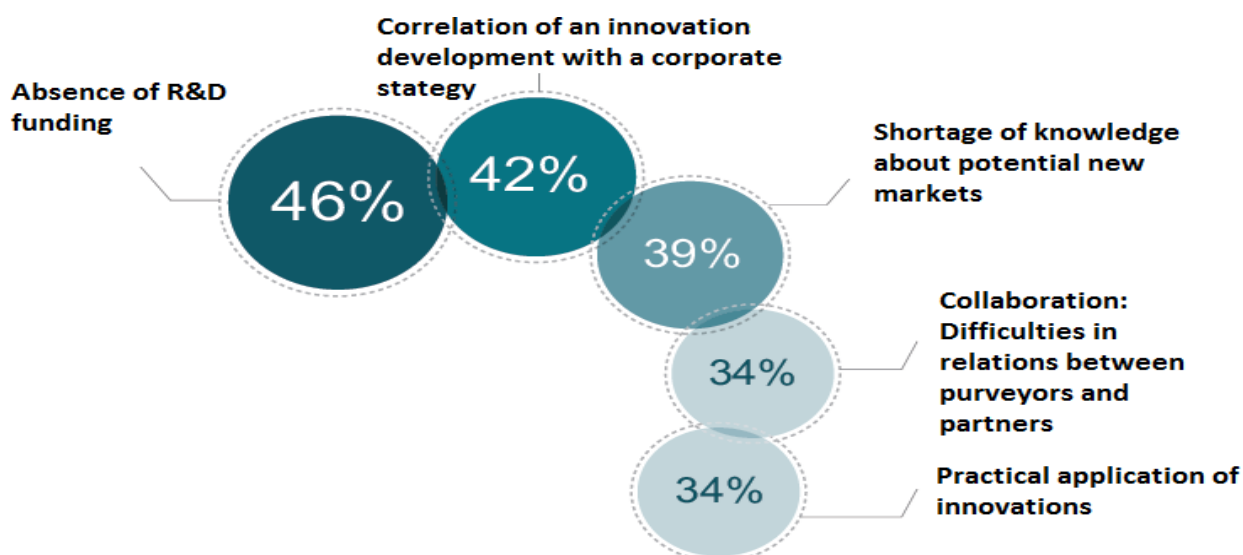


It's supposed that small companies, the earnings of which amounts to at least 5 billion dol. USA, are going to invest more actively. The probability of the fact that during the next two years they will put 4-5% of the volume of their earnings to R&D is twice as much as that of large companies.

Besides optimizing existing production lines, manufacturers are showing bigger interest in investing in disruptive innovation technologies. 36% of the respondents by all branches declared that they paid top interest to disruptive innovation technologies. According to our research, carried out in 2013, that indicator made up 31%.

It goes without saying that if it was possible manufacturers would spend on innovation development more. Actually, almost half of the inquired declared that the absence of financing R&D was one of three main problems inhibiting the introduction of innovative solutions. But despite the difficulties of securing new funding, a lot of production companies tend to pay more attention to establishing new partnership relations for implementing research, introducing new technologies and applying business models aimed at strengthening collaboration with purveyors and sometimes with competitors.

What's the main problem for introducing innovation?

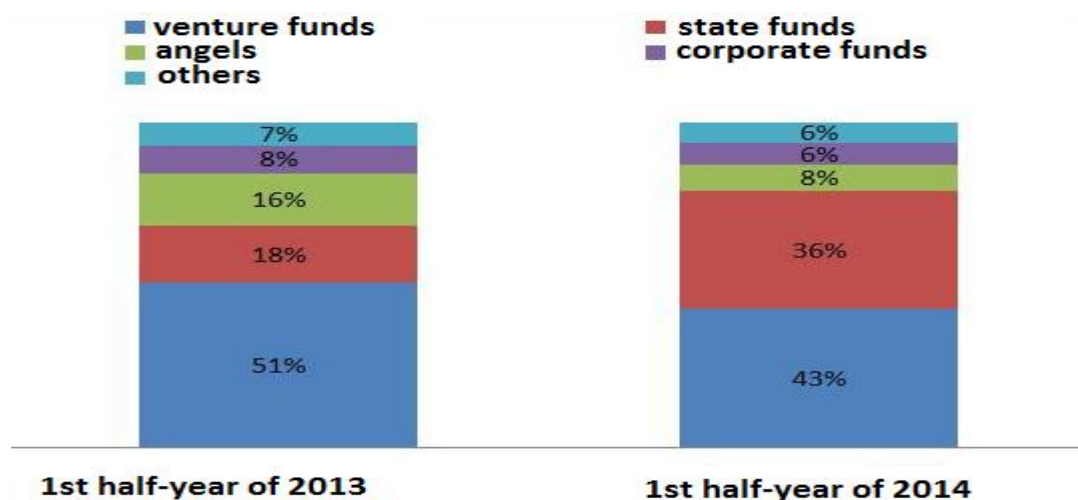


In particular, an increase in interest in establishing partnership relations was noted last year. Almost 9 of 10 of the interrogated declared that the future of innovations was in favor of partnership relations and not an internal activity of companies. During the 2013 poll 51% of respondents declared that.

In a similar manner, more than two thirds of participants of the research noted that for optimizing growth tempos and maximum attraction of investments, they introduced business models more oriented toward collaboration. However, such an activity is predominantly concentrated in Europe, where 8 out of 10 interrogated agreed with that (against 56% in the Asia Pacific region and 61% in North and South America). Although a lot of such partnership agreements generate risks and additional cost, the increased interest in their establishment can be explained by sheer practical reasons. The entrance to new markets, enhancement of labor efficiency, exchange of technological experience and integration of a supply chain, the successful solution to which implies a certain amount of

interaction with side organizations and introduction of business-models more oriented toward collaboration.

Structure of investments by the number of venture deals, Russia



Technological solutions also become popular, which is explained by the aspiration of producers for getting maximum possible avail from investments. Solutions of a company size sometimes save the situation. Three thirds of the respondents declared about introducing technologies with a function of a decision taking into their R&D processes. But one should not forget about new technologies. For instance, 8 respondents of 10 noted the impact of 3D printers on the efficiency of an enterprise activity.

It should be remarked that there is a reason to suppose, taking into account the growth of deals in total and M&A deals in 2013 in particular, that producers are likely oriented toward acquiring innovations than creating them. In all, it's possible that those capital expenses are still concentrated on reaching the same common goal, which is an innovation development.

The research unambiguously indicates that manufacturers strive for substantial changes at the expense of innovations. But although 70% of the respondents declared about the at least twofold R&D expenses increase during the next two years, there are worries that expenses on innovations might have the wrong direction of development. A lot of companies do not know for sure how to assess the value of innovations from the earliest stages to commercial sales of their products, not to mention about how to inform investors and clients.

At first, several important questions should be answered. How to separate profit received from the introduction of innovations from usual profit? What should a value of innovations fully transformed a production line be? What is innovation and production improvement?

Only having a precise idea and having learnt how to refer certain categories and assess the value of innovations, you can secure the correlation of investments with real possibilities of gaining profit and the understanding of how R&D and innovations promote efficiency enhancement of a company.