



**CHAMBER OF COMMERCE AND INDUSTRY  
OF THE RUSSIAN FEDERATION**

Money

# **INVESTMENTS: FACTS AND COMMENTS NEWSLETTER**

**THE CHAMBER OF COMMERCE AND INDUSTRY OF  
THE RUSSIAN FEDERATION**

**ISSUE 26**



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**Dear colleagues!**

**As a addendum to this issue we chose a publication that provoked huge interest of our readers – “Growth potential. Russia’s investment attractiveness analysis. 2012”**

**By Ernst & Young**



**“Growth potential. Russia’s investment attractiveness analysis. 2012”**

**By Ernst & Young**

## 1. RUSSIA'S INVESTMENT PARTNERS: COUNTRIES OF CENTRAL AND EASTERN EUROPE.



The countries of Central and Eastern Europe are geographically close neighbors and important trading partners of Russia. The region's ten countries which traditionally account for about 95% of the Russian trade with countries of Central and Eastern Europe (CEE) joined the European Union (EU) in the current decade; the aim to achieve such membership is a priority of the foreign economic policy of the other trading partners from CEE – the countries of former Yugoslavia and Albania.

A number of fundamental trade contracts and agreements (regarding the issues falling within competence of the EU) which CEE countries had with the Russian Federation were denounced and changed by the Partnership and Cooperation Agreement (PCA) between Russia and the EU. At the same time the joint statement on EU enlargement and Russia – EU relations was signed. That statement comprises measures aiming to take into account the Russian Federation's interests and to soften some negative consequences of the enlargement of the European Union "to the East".

New intergovernmental agreements enlarging and updating the contractual – legal base for cooperation between the Russian Federation and Central and Eastern Europe (including economic, industrial, scientific-technical cooperation, tourism development, air routes, etc.) have been signed as well as new bilateral intergovernmental committees on economic cooperation have been established over the past few years.



The experience of the past years has shown that on the whole the adoption of the EU trade regime has had no negative impact on the volumes of foreign trade turnover between Russia and the region of Central and Eastern Europe. In terms of a significant rise in contractual prices for energy sources (the average annual price for oil delivered to far-abroad countries has increased by 3.9 times, for gas – by 4 times) dominating in Russian exports, the results of the development of

Russia's foreign economic activity with CEE countries are record in the current decade. In 2011 the mutual trade (at current prices) increased by 4.5 times as compared to 2000 and reached

US\$92.2 billion, which amounted to 12.5% of Russia's foreign trade turnover (14.8% of exports and 8.6% of imports). Russian exports, as before, traditionally exceeded imports and were equal to 3/4 of the monetary sales volume.

If the build-up of exports from Russia to CEE countries was caused mainly by the increase in world prices for commodities and semi-finished products, an unprecedented increase in imports which rose 9.5 times in 2001 – 2011 is determined by the expansion in physical volumes of deliveries of manufactured finished goods. Russia's sustainable economic development, CEE countries' competitiveness growth on the basis of getting financial resources from the EU structural funds, the growth of foreign capital invested in the region, and the expansion of the government support stimulated an increase in Russian imports from the region, first of all, machine tools. Vigorous capital inflows from the EU countries provided the development of a number of modern enterprises on the basis of Western standards, which promoted the expansion and renewal of the export basis of most CEE countries.

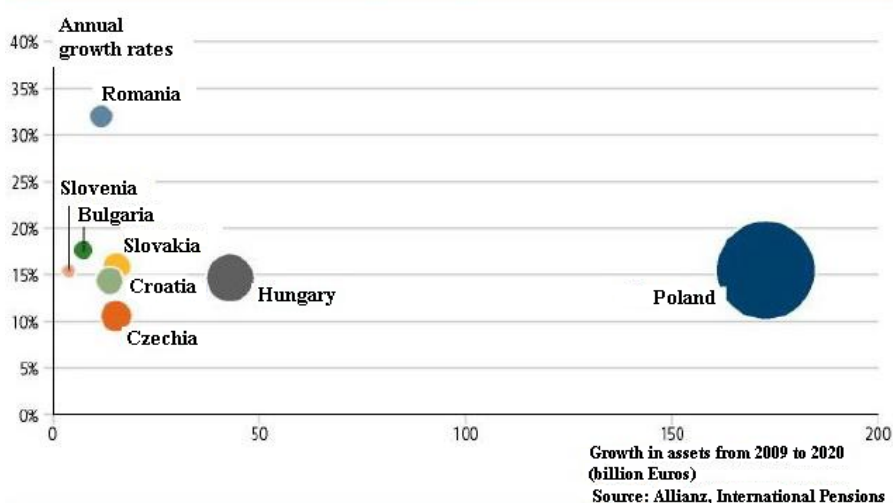
Despite an increase in import value, imbalance in goods turnover typical to foreign economic relations between Russia and CEE countries still remains. The countries of the region, as before, could not completely cover deliveries of Russian energy resources extremely necessary for them by national goods, and the trade surplus increased to US\$46

billion, i.e. almost threefold compared to 2000. Although the trade imbalance index is up to 50% (76% in 2000), but, according to world measures, it still remains at a high level.

The countries of Central and Eastern Europe, despite the steps taken to diversify imports and to create alternative infrastructure, continued to buy large volumes of Russian oil and gas which come cheaper due to deliveries through pipelines (a less expensive mode of transportation compared to other types of deliveries) and accounting for fuel transit costs to cross their territory to Western and South Europe. In 2011 the oil deliveries to CEE countries rose to 55.9 million tons (42.7 million tons in 2000). The volume of natural gas exports, although it rose, but it rose slightly to 42.9 billion cubic meters (42.3 billion cubic meters in 2000), which is determined mostly by the expansion of its purchases by Hungary in other countries through the European main gas pipeline system which BP connected to by means of the pipeline "Gyor (Hungary) – Baumgarten (Austria) in 1996.

Despite tense political relations as well as the import embargo entered into force in October 2005 on the whole number of food products, Poland remains a major trading partner of our country in the CCE region with sales volumes of US\$27.2 billion (the 10th place in Russia's trade). Poland is followed far behind by the countries carried out reasonable pragmatic

#### Central and Eastern Europe: sustainable growth is expected until 2020



#### Expected volume of pension assets in 2020 – Central and Eastern Europe

policies towards Russia (billion US dollars): Hungary (12.8), the Czech Republic (10.9), Slovakia (9.4). The trade with Albania and the countries of former Yugoslavia, particularly with Bosnia and Herzegovina, Macedonia, Montenegro is weakly developed: instability and political conflicts in the Balkans, a weak export potential, tough competition in the Russian market had a negative impact on sales volumes.

**Attitude of governments, business and population towards Russian FDI**

**Europe's most attractive countries for Russian investments**

**GREAT BRITAIN**

- 3rd place in the EU by population (62.7 million people)
- 2nd place by GDP (2.2 trillion dollars)
- developed structure of economy
- leader in attracting FDI (1st place in Europe)
- high growth rates
- significant and qualified Russian-speaking diaspora
- financial center in London
- innovation centers at leading universities

**POLAND**

- 6th place in the EU by population (38.5 million people)
- GDP is 721 billion dollars
- high growth rates
- successful industrial sector
- low-cost labor market
- geographical vicinity
- EU member state since 2004
- large consumer of Russian energy resources

**BALTIC COUNTRIES (LITHUANIA, LATVIA, AND ESTONIA)**

- geographical vicinity
- EU member state since 2004
- low-cost labor market
- high growth rates
- authorities' drive to diversify the structure of economy
- consumer of Russian energy resources

**FRANCE**

- 2nd place in the EU by population (65.1 million people)
- 3rd place by GDP (2.1 trillion dollars)
- developed structure of economy
- 2nd place by FDI attraction in Europe
- financial center in Paris

**ITALY**

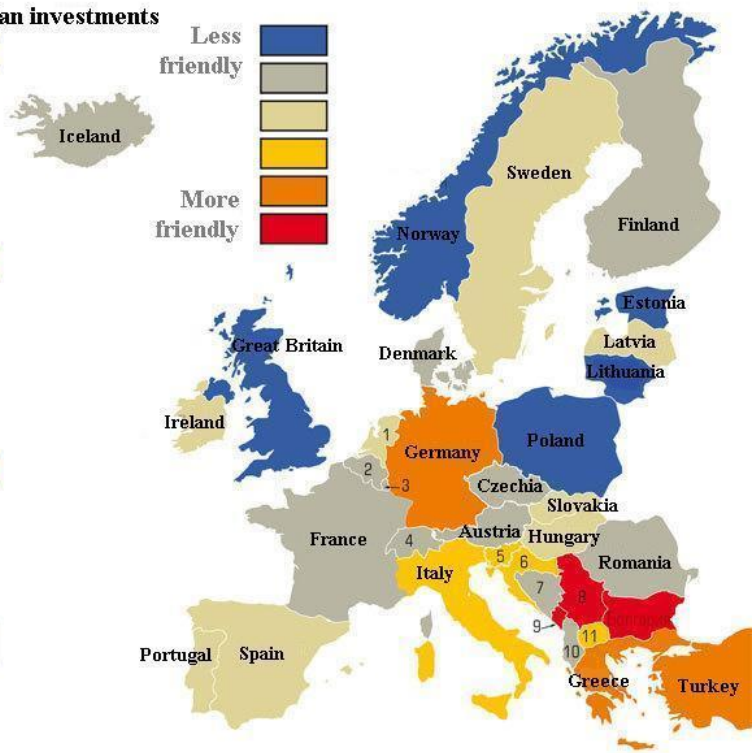
- 4th place in the EU by population (61 million people)
- 4th place by GDP (1.8 trillion dollars)
- developed structure of economy
- 2nd place by FDI attraction in Europe
- Russia's large foreign trade partner
- large consumer of Russian energy resources

**CROATIA**

- cheap assets (continued privatization program)
- low-cost labor market
- friendly attitude towards Russian FDI
- accession to the EU in 2013

**GERMANY**

- 1st place in the EU by population (81.5 million people)
- 1st place by GDP (2.9 trillion dollars)
- developed structure of economy
- 3rd place by FDI attraction in Europe
- high economic growth rates
- Russia's largest foreign trade partner
- large consumer of Russian energy resources
- significant Russian-speaking diaspora
- financial center in Frankfurt on the Main



- Countries marked in figures:
- 1 The Netherlands
  - 2 Belgium
  - 3 Luxembourg
  - 4 Switzerland
  - 5 Slovenia
  - 6 Croatia
  - 7 Bosnia
  - 8 Serbia
  - 9 Montenegro
  - 10 Albania
  - 11 Macedonia

**TURKEY**

- lags only behind Germany in population (78.8 million people)
- GDP is 960 billion dollars
- fast economic growth rates
- Russia's significant foreign trade partner
- developed structure of economy
- low-cost labor market
- candidate for EU membership since 2005

**SERBIA**

- cheap assets (continued privatization program)
- low-cost labor market
- friendly attitude towards Russian FDI
- expects to receive the EU candidate status
- consumer of Russian energy resources

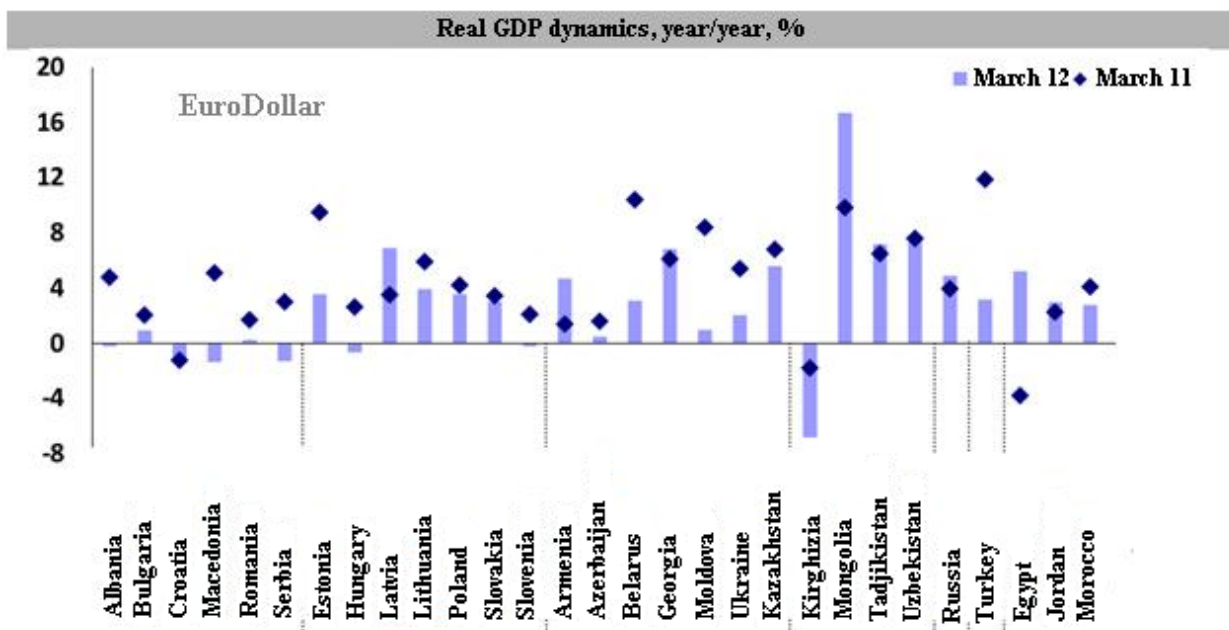
**BULGARIA**

- EU member state since 2007
- low-cost labor market
- friendly attitude towards Russian FDI
- consumer of Russian energy resources

Sources: Expert's calculations based on polling data of Gallup, AC Nielsen, MORI, Business Monitor International

The nomenclature of Russian exports to CEE countries is limited. In 2011 more than 79% of the Russian exports accrued to energy resources compared to 74% in 2000. Fuel export congestion increased over the last five years is one of the key problems of trade-economic relations between Russia and CEE countries. CEE countries' sustainable economic development (in 2010 the GDP growth rates of the new ten EU member states was 40% compared to 2000),

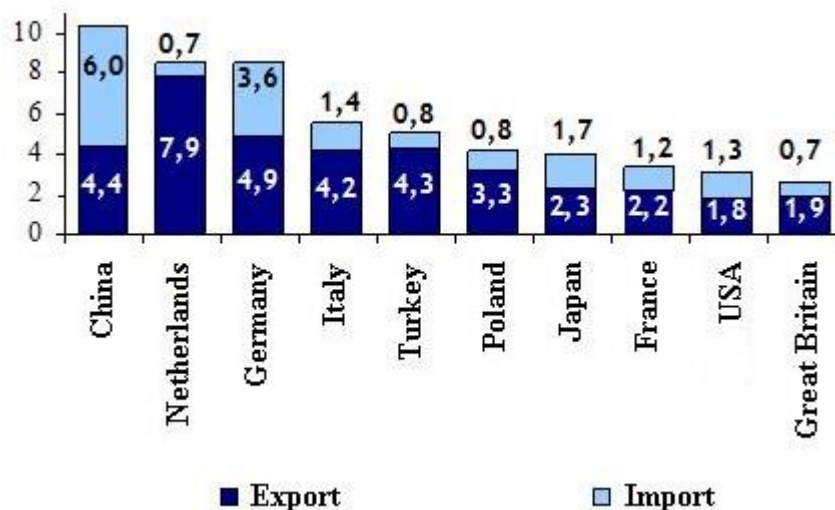
price competitiveness, refineries acquired by Russian companies in the region stimulated an increase in demand for oil and gas.



Russia's loss of trade niches of manufactured finished goods in the CEE market led to a fall both in exports (more than by US\$460 million) and in the share of engineering products – up to 2.2% of Russian exports (8.4% in 2000). The reason is a low technological and innovation potential of the national industry as well as inconsistency between output products and technical and economic regulations and standards of the European Union.

We also remark that CEE countries' accession to NATO materially limited Russian deliveries of weapons and military equipment, even in payment for the Soviet debts. First of all, basic goods in Russian exports of engineering products to CEE countries are heat-causing elements (HCE), as well as cars and trucks, repair parts and components to them, railway rolling stock and its repair parts. Thanks to a good conjuncture for commodities and slightly processed products which are the basis of Russian exports, there was an increase in exports of the other commodity groups (except light industry products), first of all, in the position "Metal and metal products".

Significant changes connected with an increase (of 16 percentage points) in the share of the traditionally leading group "Machinery, equipment, and transport vehicles" - almost up to 45% (29% in 2000) took place in Russian imports. The improvements in Russian imports are mainly determined by activities of transnational corporations, enterprises with foreign capital participation which launched production on the territory of CEE countries, the production being oriented to sales of goods in the capacious Eastern markets. As a result of an increase in purchases, imports of engineering products (US\$6.9 billion) from CEE countries exceeded exports of similar Russian goods by 6.7 times. Relatively large commodity groups of Russian imports are also chemical products, foodstuffs, cellulose and paper products, metal products. Financial resources received by new EU member states to develop the agricultural sector as well as subsidies received from the EU budget to deliver agricultural products to the markets of third countries were an important reason for increasing imports from CEE countries.

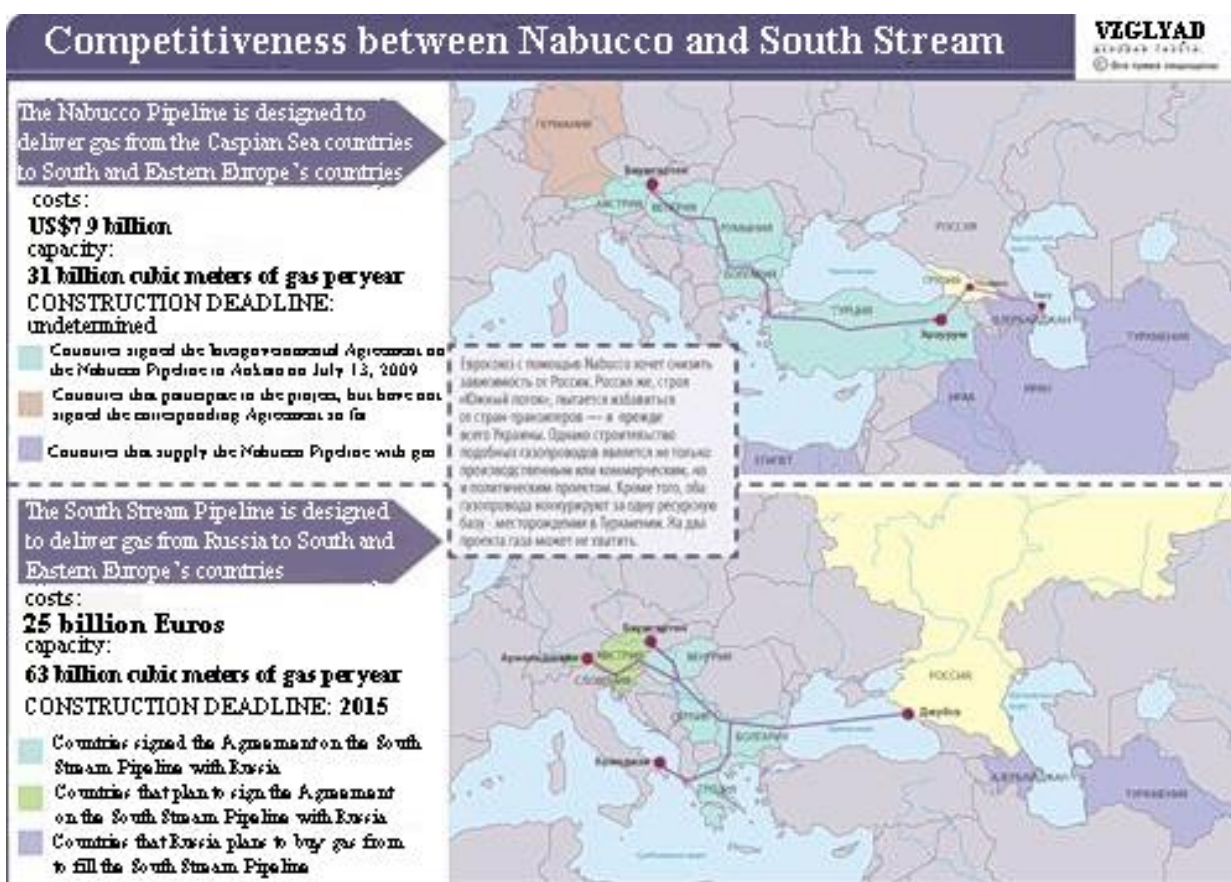
**Major trading partners of the Russian Federation (outside FSU) , 2011, billion dollars**

Although imports still remains implicitly customer-oriented (cars, household appliances and electronics, pharmaceuticals, perfumes and cosmetics, and other), deliveries of investment equipment and rolled metal products have increased over the last years, which, along with the modernization process of the Russian economy, is determined by a number of manufacturing enterprises acquired by Russian companies in the region.

According to the Partnership and Cooperation Agreement between Russia and the EU, mutual trade between Russia and new EU member states is carried out on a most-favored-nation basis; a very small part of Russian exports is under the Generalized System of Preferences (GSP) granted by the European Union to our country in 1993. After accession to the EU, the average level of duties for Russian manufactured goods imported to new EU member states decreased from an average of 9% to 3.8%, which created favorable conditions for an increase in exports of the whole number of products of the manufacturing industry. At the same time higher duties which were absent earlier began to be applied to a number of export positions (for instance, to aluminum and its alloys). Duties are not imposed on fuel and raw material goods dominating in the structure of Russian exports in the region. High tariff rates are applied to imports of agricultural goods, particularly, dairy products, and processed vegetables and fruits.

The application of EU anti-dumping measures as well as quantitative restrictions in relation to a number of iron and steel products (the latter will probably remain until Russia's accession to the WTO) makes the work of Russian exporters in the market of CEE countries more difficult. Investment activities of large entrepreneurial structures have a certain impact on the dynamics and structure of mutual deliveries of goods between Russia and CEE countries. In the current decade the motives which were important for Russian companies to invest in the region were as follows: the opportunity to solidify in a number of economic sectors of countries joining the European Union, to avoid tariff and non-tariff barriers, and to realize goods on the territory of the enlarged European Union without restrictions.

Native businesses invested capital in the Balkan countries' economies especially actively, which was stimulated by low prices of enterprises set out for sale, low competition as well as by the aim to build vertically integrated companies, and by that to take control of the whole processor chain, including refineries and oil-product distribution channels.



The first Russian companies which acquired foreign assets in the region were Gazprom and LUKOIL. Investments made by Russian raw materials companies allowed partially taking control of distribution channels and transfer streams of domestic energy resources, keeping raw materials ties between the region and Russia.

Unsatisfied demand in Russia as well as anti-dumping measures and import quotas for



Russian rolled steel applied by the European Union were reasons for acquiring the whole number of iron and steel enterprises in CEE countries. Acquiring one of the leading producers of rolled steel "Vitkovice Steel" by Evraz Group S.A. and the CEE largest producer of pipeline industrial armature JSC "MSA Group" by JSC "Chelyabinsk Tube-Rolling Plant" in Czech Republic are among key deals made over the last years. The iron and steel company "Mechel" (Lithuania and Romania), "Iron and Steel Tube Company" (Romania), as well as the "RusAl" (Romania, Montenegro) and the aluminum company "Marko Investments and Industries" (Romania) have assets in CEE.

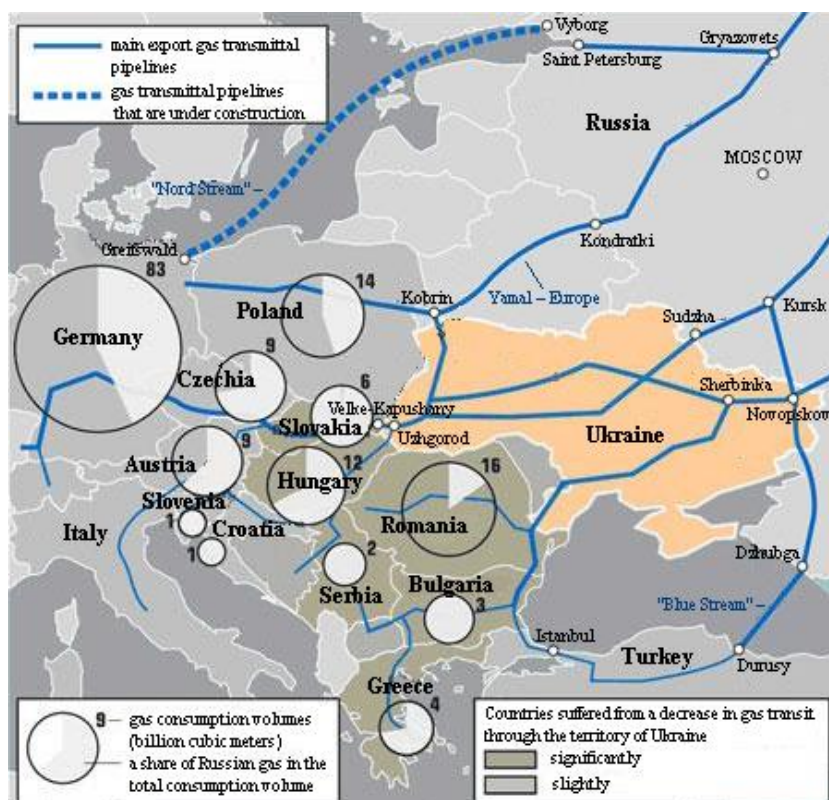
Russia keeps significant economic interests in the geographically close region the countries of which traditionally are distribution areas for fuel commodities and important transit territories. Around 28% of exported natural gas, 21% of oil, 11% of coal, 15% of electricity were sold in CEE. Up to 40% of the volume of export deliveries of Russian gas and up to 30% of oil are transported through the territory of a number of Central-European countries (Poland, Hungary, Czech Republic and Slovakia) to Western and South Europe. As for the CEE position in relation to Russia, the realities of economic life and pragmatic considerations

determine their interests in developing cooperation with our country. The exploitation of oil and gas pipelines brings countries real incomes as transit charges.

The immense Russian market of goods and services allows building up exports of goods of the manufacturing industry, which is important due to distribution problems in western countries. Russia is the main supplier of energy resources to most countries in the region. Basic needs of the region's countries in energy resources are satisfied by imports from the Russian Federation. According to the European Statistics Bureau (EuroStat), Russia fully satisfied import gas needs (at value) of Czech Republic, Latvia, Lithuania and Slovakia – by 99%, Romania – by 91%, Hungary – by 75%, Slovenia – by 49%; import oil needs – the main part of import demand, including Slovakia, Poland – by 95%, Lithuania – by 96%, Hungary – by 95%, Czech Republic – by 62%, Estonia – by 55%, Romania – by 54%.

Good political relations with the Russian Federation are considered by most countries in the region as a necessary condition for provision of reliable supplies of energy resources. In the current decade outright thanks to a good conjuncture in the energy resource market, Russia's presence in the CEE market decreased slightly.

Thus, due to the expansion of economic relations between Russia and CEE countries as well as the development of international cooperation infrastructure, the significance of economic cooperation with the countries of South-Eastern Europe (SEE) occupying an important place in plans for ramping up Russian oil and gas exports to Europe is increasing.



## 2. RUSSIA AND APEC MEMBER ECONOMIES: FOREIGN DIRECT INVESTMENTS.



**The issue of foreign direct investment (FDI) attraction is very topical in Russia. Our balance of direct investments has been negative recently. However, the outflow of foreign investments abroad is not always bad. It is really bad if we deal with the capital outflow.**

In Hong Kong, for instance, the balance of foreign direct investments is also negative, but this is not a bad thing, as Hong Kong and Hong Kong residents invest in the acquisition of assets abroad. Many foreign direct investments come to Hong Kong as well.

Russia has very low investment attractiveness for its level of development. They like to compare Russia with the developed countries, but it is not quite correct, as richer countries always have more developed institutions. That is why it is correct to compare Russia with countries of similar levels of development and of similar structures.

Russia is at the worst position on investment attractiveness among countries of similar levels of development in the Asia-Pacific Region. For instance, Russia has the same investment attractiveness as China, but China has a far less level of economic development, and this means, for instance, that China's labor force is cheaper.

While such countries as Chile, Mexico and Peru with similar levels of GDP per capita have far more investment attractiveness. To this extent as for Russia we have not just competitiveness scissors, but triple competitiveness scissors: our labor force is not cheaper, our level of welfare is not so high, as well as our institutions are not developed very much.

China still has cheap labor force, but its institutions are not yet developed, Chile's labor force is not yet cheap, but Chile has investment potential which it can implement. Russia has already reached such a threshold as there is no opportunity to move into the category of the highly developed countries with high levels of welfare without developing institutions. There are countries with low levels of economic development, but with well developed institutions; there are rich countries with well developed institution, but there are no rich countries with poorly developed institutions. Thus if we want to move into a new growth strategy, this task needs to be solved as a matter of priority. And this is a so-called investment gap, i.e. a short level of Russia's investment attractiveness, probably, the most large one among countries and economies in the Asia-Pacific Region.

### FDI inflows into APEC countries and FDI outflows from APEC countries (share in GDP)

Country	FDI inflows from abroad
Hong Kong	31%
Singapore	19%
Vietnam	7.5%
Chile	7.1%
Peru	4.7%
Malaysia	4.0%
China	3.1%
<b>Russia</b>	<b>2.9%</b>
Thailand	2.0%
Indonesia	1.9%
Mexico	1.8%
The USA	1.6%
Canada	1.5%
The Philippines	0.9%
Papua New Guinea	0.3%
Korea	-0.01%
Japan	-0.02%

Country	FDI outflows abroad
Hong Kong	34%
Singapore	9.5%
Malaysia	5.7%
Chile	4.1%
<b>Russia</b>	<b>3.5%</b>
Canada	2.5%
The USA	2.4%
Korea	1.9%
Thailand	1.7%
Mexico	1.3%
Japan	1.0%
China	1.0%
Vietnam	0.8%
Indonesia	0.4%
The Philippines	0.2%
Peru	0.14%
Papua New Guinea	0.002%

Before speaking about the measures to increase the investment attractiveness, it should be realized what kinds of problems need to be solved. First of all, investors do not perceive Russia as a country where it is easy to start doing business. And the main obstacle is the quality of institutions.

The surveys show that instead of 4% economic growth Russia would have 6% if some institutions worked more efficiently. It would seem that the spread is not too large, but 4% growth gives double GDP over 20 years, and 6% growth gives triple GDP. 3–4% is a growth rate which developed economies can afford. To overtake them and reach the level of developed countries we should have higher growth rates, therefore, having 4% growth Russia will not solve its strategic tasks.

The institutions may be divided into two parts. The fundamental ones - they cover most part of the economy and cannot be changed very fast. Such institutions include all the anti-corruption methods, the property rights protection, and the investment attractiveness on the whole. However, some rules may be changed fast enough if there is a political will. In particular, this is trade liberalization, freedom of the mass media, permission for foreign investors' access to the spheres closed for them earlier, legislative changes in the sphere of property and tax payments.

### How much it is more complicated to register a new business in Russia than in other APEC countries

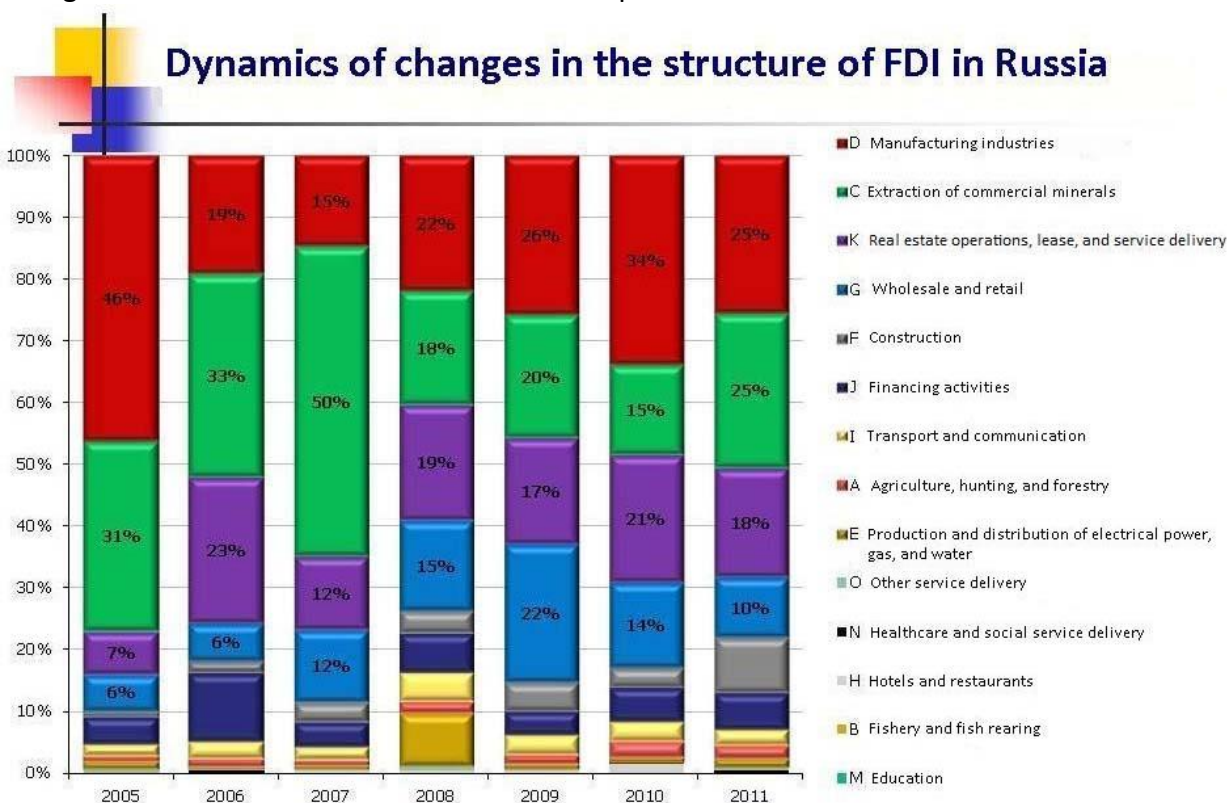
Country	A number of procedures necessary to register a new business	A number of days necessary to register a new business
New Zealand	1	1
Australia	2	2
Hong Kong	3	3
Singapore	3	3
Canada	1	5
Malaysia	4	6
The USA	6	6
Korea	5	7
Chile	7	7
Mexico	6	9
Japan	8	23
Peru	5	26
Thailand	5	29
<b>Russia</b>	<b>9</b>	<b>30</b>
The Philippines	15	35
China	14	38
Vietnam	9	44
Indonesia	8	45
Papua New Guinea	6	51
Brunei	15	101
Reference information: Georgia	2	2

Among the reforms which ease doing business are simplification of the procedures for the establishment of companies, obtaining construction permits, connection to electrical supply networks, property registration, attraction of credits, tax payments, securing execution of treaties, settlement of financial insolvency; simplification of the rules and procedures for international trade; protection of investors.

## Examples of reforms implemented in the area of investor protection

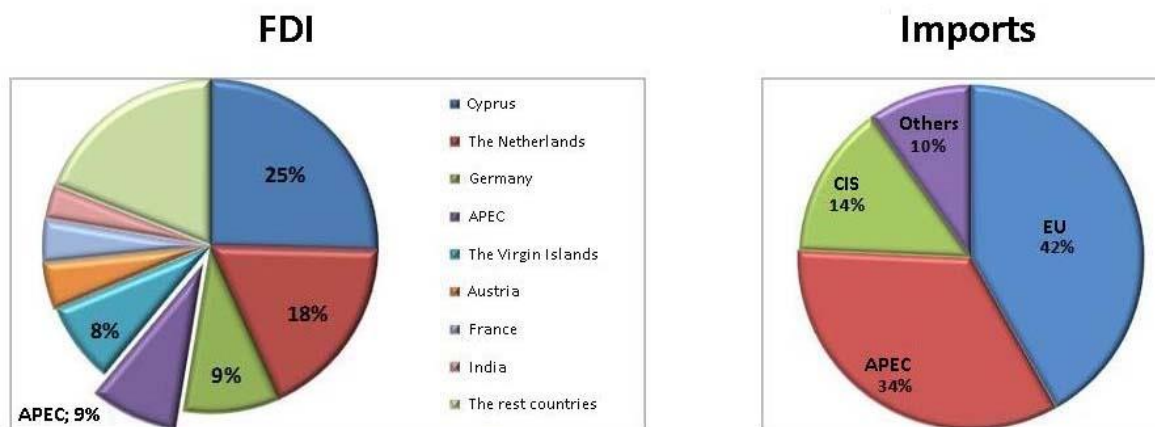
Practice	Examples
The implementation of the opportunity to cancel transactions of interest in pre-trial proceedings	Brazil, Mauritius, Rwanda, the USA
The implementation of regulations to approve transactions of interest	France, Iceland, Indonesia, Lebanon, Great Britain
The implementation of requirements for submitting detailed information	China, Israel, New Zealand, Singapore
The implementation of the procedure providing for the opportunity to access all corporate documents in carrying out trial proceedings	Chile, Ireland, Morocco, Peru, Poland
The clear definition of responsibilities of companies' members of Boards of directors regarding transactions of interest	Colombia, Malaysia, Mexico, the USA, Vietnam
The implementation of requirements for carrying out a third party expertise of transactions of interest	Australia, Burundi, Egypt, Norway
The implementation of the procedure providing for the opportunity to access all corporate documents before carrying out trial proceedings	Greece, Japan, the Republic of South Africa, Sweden

The implementation of strategic goals to move Russia from the 120th place to the 20th place in the ranking on the ease of doing business can be reached in the frame of legislative changes at most. And then it will redound to improvements of the whole institutional climate.



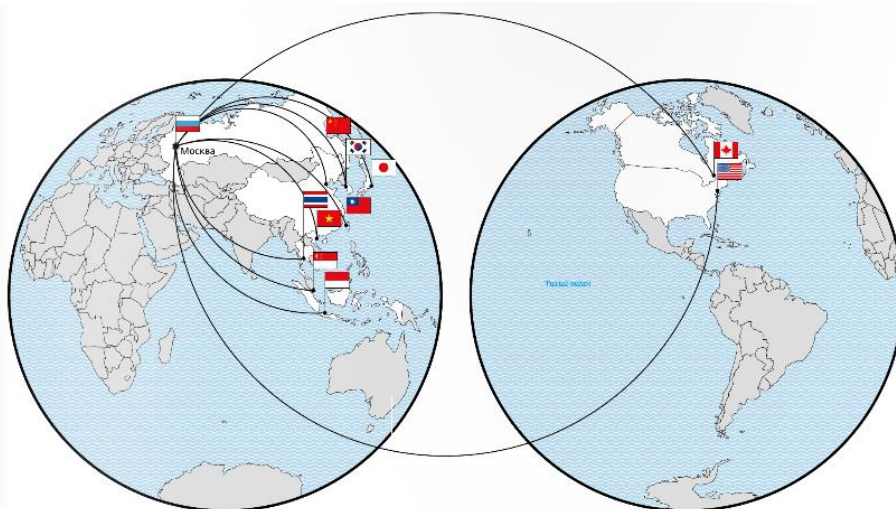
Reforming the system for protection of investors' rights should be implemented on the basis of "the best practices" in the Asia-Pacific Region.

## Comparison of imports and FDI into Russia from APEC countries



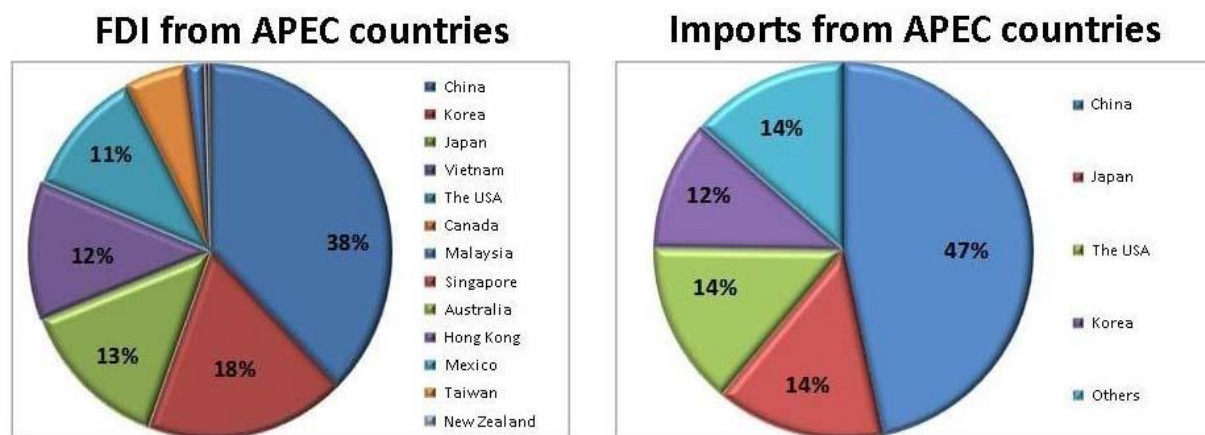
The welfare has increased in Russia during recent decades, but the quality of institutions either fell as the Investment Attractiveness Index shows or stagnated as the Cumulative Economic Freedom Index shows. The only index which shows that Russia grew more or less is the International Trade Freedom Index. This is a direction in the frame of which further development is possible.

The structure of foreign direct investments is not stable and ideal in Russia. We would like more investments to be directed to the manufacturing sector. If we compare the structure of trade with the structure of foreign direct investments, it shows that Russia buys significant volume of goods in the APEC



economies, but poor investments come to our country from the Asia-Pacific Region, i.e. we are much more attractive for the APEC countries as a distribution area than as an investment object. If we compare such indices as the procedures which are necessary for the registration of a business and a number of days which are necessary for the registration of a new business, we will prove to be far from the forefront of leaders, with our major "competitors" being countries of similar levels of development, i.e. these are Malaysia, Chile, Mexico, Peru. While having similar levels of wages and welfare, they can offer businesses much better terms and conditions.

## Comparison of imports and FDI into Russia from APEC countries



The practical task of changing a country's place in some ranking may be solved without taking care of real improvements in the state of affairs. The ranking on the ease of doing business is compiled on the basis of actually passed legislative changes. A plain list of these legislative changes may let rise up through several tens of places in this ranking, with it taking only a year. However, the task that faces our country is still different. It is more global, i.e. it is to improve the investment attractiveness and business climate (the source: Information Department of the Russian Research Center for APEC, the speech and presentation by A.U. Knobel during the roundtable discussion "Investment climate in Russia and APEC: problems and prospects", 19.04.2012).

### 3. THE FAR EAST: INVESTMENTS IN ENERGY SECTOR.



The Far East energy sector urgently needs an investment mechanism after a 20 year investment pause. The regional energy companies cannot cope with financing investment programs either themselves or at consumers' expense.

So far the government being the key guarantor of the Far East infrastructure development has not been able to decide how to invest money in electric power stations of the country's eastern regions, and at the level of the legislation have not created conditions for

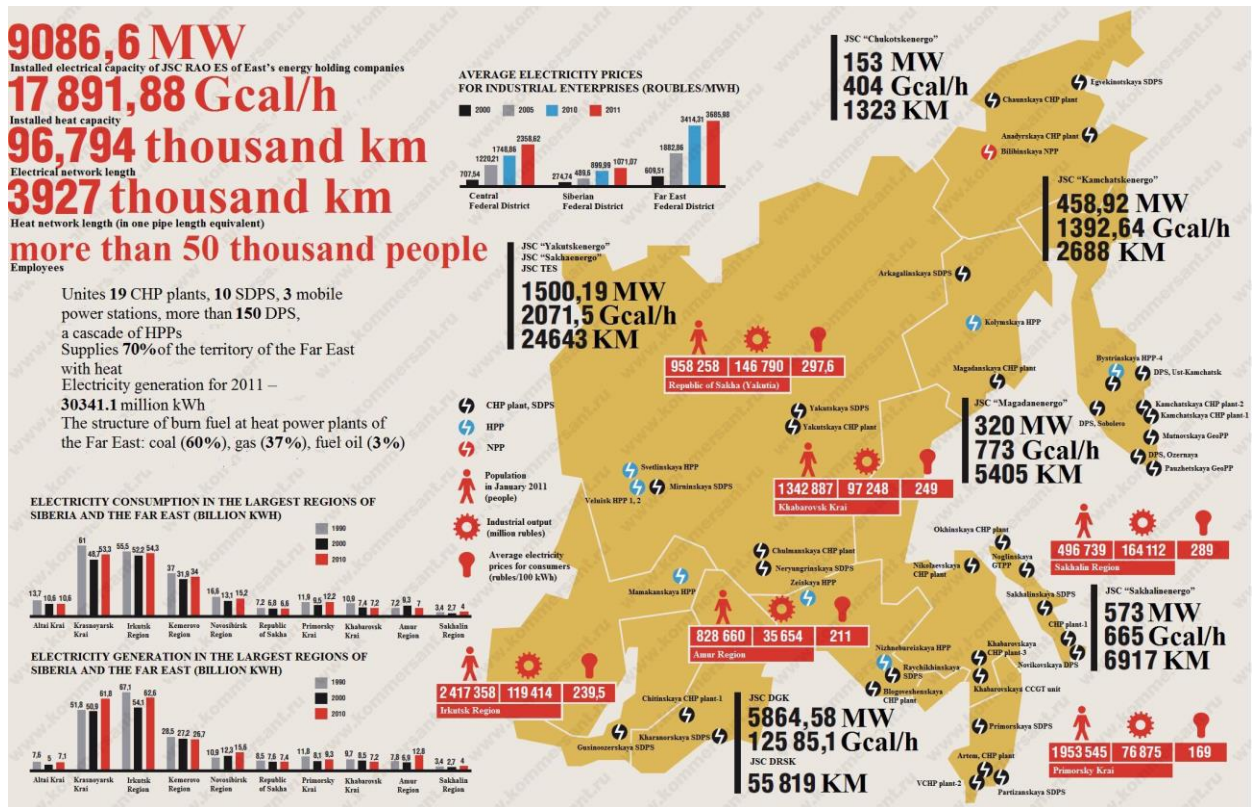
attracting investments from private investors.

The Far East energy system can be called the most problem electric utility industry in Russia. Most of the territory of the huge region is divided into separate "micro-energy systems", part of which represents diesel heat power stations (HPS) or diesel power stations (DPS) supplying one-two villages with energy. The United Energy System (UES) of the Far East comprises only capacities in the south of the Far East Federal District (FEFD) (Primorye,

Khabarovsk region, the Amurskaya region, the Jewish autonomous area and the south of Yakutia). Moreover, although the United Energy System of the Far East is connected through networks with the neighboring United Energy System of Siberia, but the United Energy System of the Far East is not synchronized with the United Energy System of Siberia (i.e. cross-flows of electric energy are possible only through special substations – direct current links which are similar to those used to export electricity from Russia, say, to Finland). At last, the energy systems of Kamchatka, Sakhalin, Magadan region, Chukotka, Yakutia, are forced to function absolutely autonomously because of their distance from habitable territories.

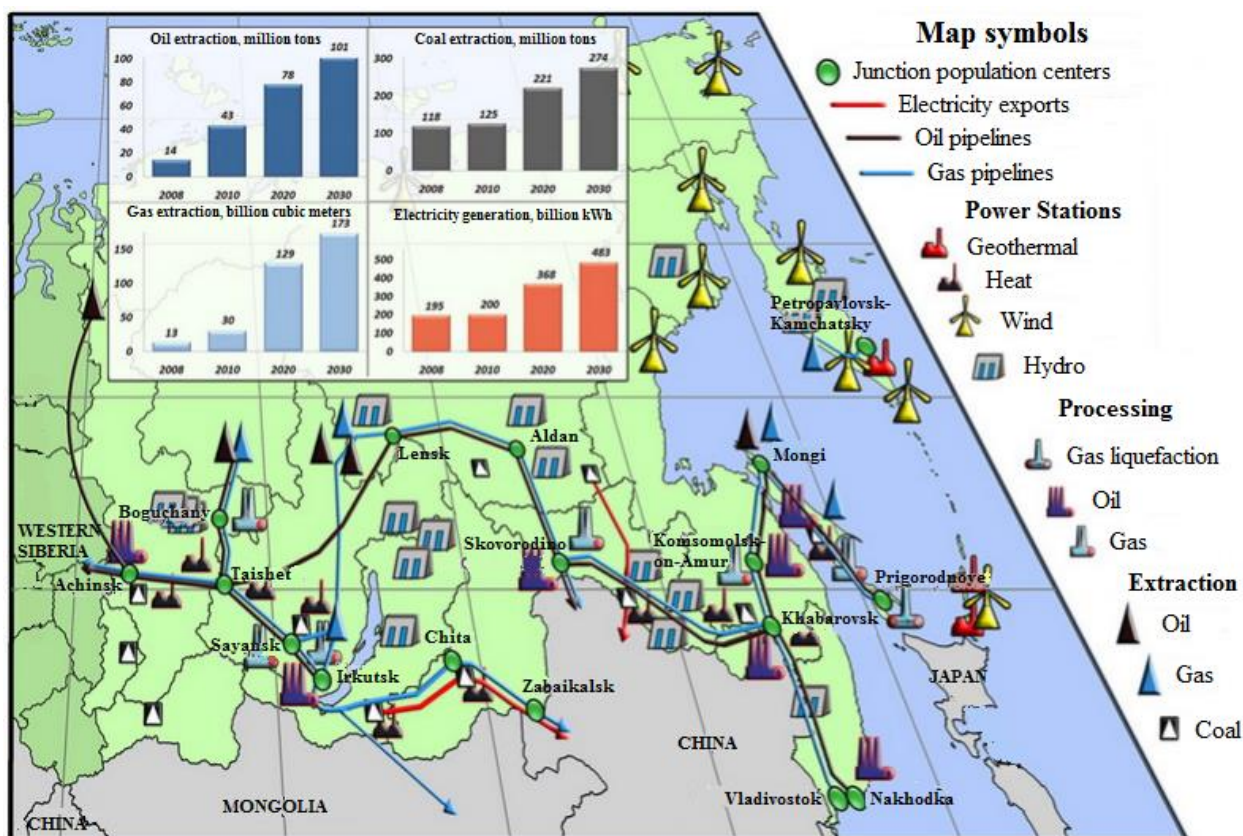
The United Energy System (UES) of the East which takes around three quarters of the Far East Federal District's electricity consumption (more than 30 billion kWh) is extremely disproportionately developed. Two large hydroelectric power plants (HPP) of JSC "RusHydro" – Bureiskaya HPP and Zeyskaya HPP, their total capacity is 3.3 GW, Neryungri state district power station (SDPS) in Yakutia (570 MW), Khabarovsk combined heat power plant (CHP Plant)-1 and CHP Plant-3, their total capacity is more than 1.1 GW, and a number of other electric power stations – are located in the south of the Unified Energy System. Moreover, the maximum volume of electricity is consumed in the south of Primorye, in Vladivostok and in neighboring cities. The surplus of electricity is formed in the territories of hydroelectric power stations, in Neryungri and in the Khabarovsk region, but the existing network infrastructure in Primorye is not enough to transfer these volumes of electricity. 110 -220 kV networks are mainly used in the region, which is not enough to ensure reliable energy supplies.

A significant part of capacities of the electric-power industry of the Far East became old. For instance, the first aggregates of Maysk SDPS in Sovetskaya Gavan, Artemovsk CHP Plant and Komsomolsk CHP Plant-1 were put into operation in 1930, a number of capacities were put into operation in post-war years when the development of the region's industry began. Moreover, a number of power stations are not effective because of high fuel consumption. "Massive putting into operation objects of heat-electrical energy was in 1960 – 1980. At that time decisions of construction were based on the maintenance of large industrial complexes. After the breakup of the Soviet Union, many projects were not implemented," remarks Konstantin Grechukhin, Head of the Department of methodology for valuation activities, MEF-Audit ACG. "The reason for high depreciation is trivial: capacities were put into operation long enough and were not renewed in the 1990-s. While new nuclear power plants (NPP) were built in the European part of the country in the 1980-s, and heat power stations were transferred from coal to gas, there were no such large-scale modernizations of heat generation in the Far East," adds Alexander Grigoriev, Head of the Department of Research of Fuel and Energy Complex, Institute of Problems of Natural Monopolies.



Heat generation of the Far East Federal District has been entirely coal-fuel oil until recently. "The level of coal consumption to generate energy – around 70% – is very high in the region whereas the average level in the country is 30%. That is why average prices for energy are twice as much as all-Russian ones are because of high costs," remarks Konstantin Grechukhin. Power stations ran on local (Neryungri, Luchegorsk) or imported coal. Gasification of Sakhalin, Kamchatka, the Khabarovsk and Primorye regions began only in the early 2000s.

Almost all the energy industry of the Far East is under control of the government. The tandem of state-owned companies JSC "RusHydro" and JSC "RAO Energy System of East" is a key player in the industry. JSC "RusHydro" owns large hydroelectric power stations and geothermal power stations in Kamchatka as well as a controlling block of shares of JSC "RAO ES of East". In its turn, this holding company has control of almost all the heat power industry, distribution networks, and power supply companies. Only the transmission networks of the Federal Grid Company, Bilibinsk NPP of JSC "Rosenergoatom", as well as some energy assets of industrial companies (for instance, Svetlinsk HPP of JSC "ALROSA") are still beyond this structure. The Far East Energy Management Company playing a role of one of the agents for assimilation of some targeted government investments (for instance, the creation of individual elements of the energy infrastructure for the Asia Pacific Economic Cooperation (APEC) Summit or the Eastern Siberia – Pacific Ocean (ESPO) oil pipeline) and the Eastern Energy Company owned by JSC "Inter RAO UES" are smaller players. The Eastern Energy Company is carrying out export operations in China.



That the Far East energy industry would be in need of significant investments was perfectly understandable in the period of existence of JSC RAO “UES of Russia” which controlled both hydro generation and heat power stations of the Far East Federal District till 2008. The energy holding company’s specialists suggested doubling generation capacities of the Far East Federal District and had built some power stations with an installed capacity of 10 GW over ten years. China was to become a major energy consumer of these power stations (60 billion kWh per year). However, it was clear that the People's Republic of China was not interested in this project very much (in the early 2000s China did not buy energy in the Far East despite the explosive development of its border districts with Russia).

Straight after the liquidation of the state energy monopoly, JSC “RAO ES of East” was faced with the fact that the company did not have sufficient resources of its own to finance large construction. In the Far East there is no energy market as well as mechanisms at the level of the legislation which would allow creating conditions and guarantees to return investments; in most cases the government’s tariff policy does not allow energy companies to get funds for new large projects.

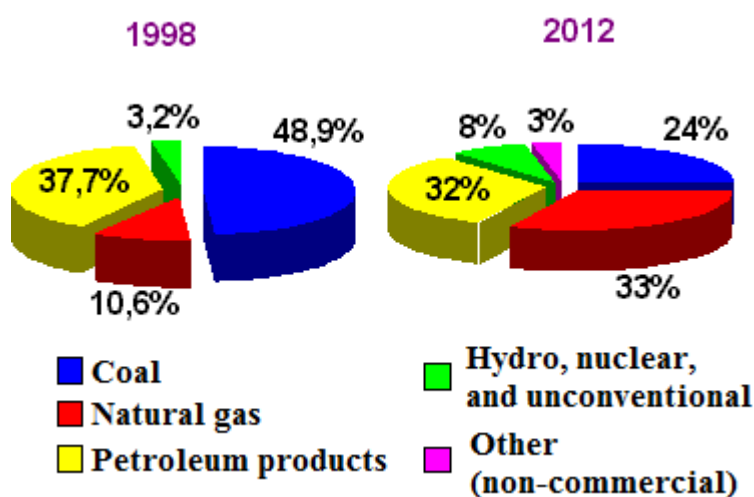
There was no increase in China’s demand which JSC RAO “UES of Russia” relied on four years ago. In 2009 JSC “Inter RAO UES” managed to resume deliveries of energy to the PRC, but their volume amounted to 854 million kWh per year only.

At the end of the last year the Federal Grid Company put into operation a 500 kV cross-border power transmission line due to which exports may increase to 2.6 billion kWh in 2012. However, in any case it is one order less than the volume which JSC “Inter RAO UES” predicted.

So far there have been no plans for further increases in cross-flows of energy. Moreover, according to unofficial figures, exporting to the PRC is not too profitable. In any case JSC “Inter RAO UES”, in fact, froze a project for the construction of a coal heat power station in

Khabarovsk with an installed capacity of 460 MW which was considered as a promising source of energy for China a couple of years ago.

### The structure of the Far East's gross energy consumption



Some experts differ in the assessment of prospects of China's demand. "Deliveries to China are most likely to increase," Mr. Grechukhin supposes. Contrariwise, Alexander Grigoriev is more cautious and says that prospects to develop export-oriented projects for China's energy industry are "foggy enough". In his opinion, China is interested in importing very cheap electric energy which is not sufficient even in the Russian Far East where prices and tariffs are

one of the highest in Russia: they exceed the average Russia's level by about 1.5 – 1.6 times for industrial consumers.

However, the Far East region itself can boast of its electricity consumption growth rates which are high compared to all-Russian ones. The generation of power stations of the United Energy System of the East amounted to 26.7 billion kWh (by 5.7% more than in January – July 2011) over the first seven months of 2012. The electricity consumption increased by 3.5% to 25.3 billion kWh over that period of time. These figures are higher than those in Russia's other energy systems. So the average electricity consumption in Russia increased only by 1.7% over the first seven months of 2012. "Growth in demand for electricity in the Far East actually exceeds average all-Russian figures. So, for instance, in 2011 growth in electricity consumption in the United Energy System of the East amounted to 1.45%, and on average in the United Energy System of Russia – 1.16%," Mr. Grigoriev agrees. However, in the expert's opinion, it is explained by the Asia Pacific Economic Cooperation Summit and the construction connected to the Summit: "We get such high growth rates due to the initially low-base effect." However, how much the demand for electricity in the Far East District will rise is not clear yet.

So far almost all consumption growth rates in the Far East District have been provided by the old energy system. JSC "RusHydro" explained its position in relation to the investment program of JSC "RAO ES of East" saying that the replacement of outdated and unreliable energy equipment is a priority now. Putting into operation large objects in the Far East Energy System has been a little recently: the completion of Bureiskaya HPP, gasification of some power generating stations, and network construction for the Eastern Siberia – Pacific Ocean (ESPO) oil pipeline. The first serious object built there was the fifth power generating unit of Yuzhno-Sakhalinsk CHP Plant-1 put into operation at the end of August. Additional 91.2 MW which cost JSC "RAO ES of East" 3.3 billion rubles increased the capacity of power stations of the Central energy region of the Sakhalin Energy System by about 16%. According to JSC "RAO ES of East", such objects were not built on the island for thirty years. Before that, in the 1990 – 2000s, even

despite the explosive development in the sphere of oil and gas shelf projects, new generating capacities were not put into operation in the United Energy System.

### Volumes of gas extraction, billion cubic meters

Years	Eastern Siberia	Far East	Total
2005	3,8	4,4	8,2
2010	9	28	37
2015	52	42	94
2020	58	72	130
2030	65	80	145

### Volumes of geological exploration works until 2030

	Geological exploration drilling, thousand meters	Reserves increment, billion cubic meters
<b>Eastern Siberia</b>	<b>2300</b>	<b>4100</b>
Krasnoyarsk Krai	1500	2600
Irkutsk Region	800	1500
<b>Far East</b>	<b>1200</b>	<b>2600</b>
Republic of Sakha (Yakutia)	400	800
Sakhalin Region	600	1500
Other subjects of the Russian Federation	200	300
<b>Total:</b>	<b>3500</b>	<b>6700</b>

However, the holding company did not manage to implement the next energy project on an independent basis in Sakhalin. JSC "RAO ES of East" had to establish the partnership with the regional authorities and the Rosimushchestvo to build the fourth power generating unit of Yuzhno-Sakhalinsk CHP Plant-1 with an installed capacity of 140 MW, the regional authorities having a controlling block of shares. In this case the region had a chance to invest in its own energy sector, but it is unlikely to be worth expecting that such a scheme may be extended to the whole Far East Federal District.

JSC "RusHydro" considers "all possible resources to finance development projects" in the Far East. "It can be project financing for individual power stations along with the government, resources borrowed from Vnesheconombank as well as foreign export credit agency financing in the event of the project having its export potential. In some cases like Ussuriysk CHP Plant, one of the financial resources will be money received from the sale of assets – in this case, the question is about the Far East Distribution Grid Company," JSC "RusHydro" announced. These assets are supposed to be sold to the Federal Grid Company: JSC RAO ES of East's 2013 – 2014 investment program approved by the Ministry of Energy envisages 11 billion rubles which the holding company has to get in the frame of this deal.

Moreover, JSC "RusHydro" expects JSC RAO ES of East's management to work more actively with regions to get long-term tariffs providing for best return on investments. Particularly, the company suggests keeping the high "coal" tariff for the payback period of new gas power generating units. JSC "RAO ES of East" itself does not intend to build anything on

non-payback conditions. “We are not ready to build monuments in the taiga,” remarked Sergei Tolstoguzov, Chief Executive Officer of JSC “RAO ES of East”, while the fifth power generating unit of Yuzhno-Sakhalinsk CHP Plant-1 was being put into operation. The Ministry of Energy also remarked that long-term Capacity Delivery Agreements (CDA) for the period of 15 - 20 years can be used. A similar mechanism (of CDA) is used in the European part of Russia and in Siberia where the competitive pricing model is in process in the wholesale electricity market.

However, so far there has been no cooperation with any of the potential investors. So JSC “RAO ES of East” planned the investment program for 2012 to the extent of 20.1 billion rubles. However, in May the Ministry of Energy approved quite different figures: the holding company’s total expenditures have to amount to 5.15 billion rubles this year, further investments have to increase. (JSC “RAO ES of East” will invest 38.1 billion rubles for three years. Most of this year’s investments are funds (4.7 billion rubles) left from JSC RusHydro’s sale of some regional power supply companies transferred to JSC “RAO ES of East” upon the liquidation of RAO “UES of Russia”).

**The projects implemented by JSC “Far East Energy Management Company”  
on the territory of the Far East Federal District**

<b>Region</b>	<b>A number of projects</b>	<b>Investments, million rubles</b>
<b>Amur Region</b>	1	2 163
<b>Kamchatka Krai</b>	1	9 545
<b>Magadan Region</b>	2	23 524
<b>Republic of Sakha (Yakutia)</b>	2	48 474
<b>Primorsky Krai</b>	6	10 592

The approved investment program has no deficit, but there are some questions in relation to financing a number of objects for which the design estimate documentation is being prepared now. The opportunity of budget financing in the frame of the Federal Targeted Program “Development of the Far East and Transbaikalia until 2018” is being worked out to solve these questions, but talking about precise sums will be possible only after the very program is ultimately formed and approved.

So far Vnesheconombank and its Far East and Baikal Region Development Fund which are most often considered potential financial resources for JSC “RAO ES of East” have not made a decision on any of the investment projects of the energy holding company although the negotiations on this subject were carried out. “The possible participation of the financial institutions including Vnesheconombank and its Far East and Baikal Region Development Fund to implement JSC RAO ES of East’s investment program is determined by JSC RAO ES of East capability to guarantee maturity, serviceability, and refundability of attracted resources,” says Alexander Bazhenov, Director of the Public Private Partnership Directorate of Vnesheconombank.



According to his words, the problem of implementation of JSC RAO ES of East's investment program is often bound up with limited opportunities of financing this company because the company has already exhausted its credit limit. However, this problem is common to all service industries. Therefore, the decision should be sought in reorganization of investment activities with a transfer to

the project financing principle for investment projects and matching return on investments to legally binding terms and conditions for usage of infrastructure objects (their management, the formed distribution area, conditions for long-term deliveries of fuel resources, possible subsidies for covering planned losses tied to a justified budget effect of removal of infrastructure restrictions on the economic development of the territory," says Vnesheconombank's manager.

At last, using export credit agencies' money strikes against prospects for electricity deliveries abroad, i.e. to China, for instance.

However, Chinese investors have also shown a cautious interest for the energy industry of the Far East recently. In 2011 State Grid Corporation of China examined the question of construction of a heat power plant at Yerkovetsk open pit coal mine, but this company was interested in creating a special economic zone and preferential tax exemptions to implement the project. In June, JSC RAO ES of East, the Bank of China, and the machine building alliance "Amur Energostroy Alliance" signed a strategic cooperation agreement on the Ussuriysk CHP plant project with an installed capacity of 370 MW in Beijing. Particularly, in this situation, the alliance is interested in distributing its products; the Bank of China can provide financing the construction.

However, so far no mechanism of financing reconstruction of the Far East energy industry has been fully used. The government was engaged in direct budget financing of the energy industry only in the frame of targeted programs; the regions are limited in their investment opportunities.

The Chinese market still remains potentially good, but China does not accept any obligations for imports or investments into Russia, and Vnesheconombank and other financial institutions are waiting for conditions for return on investments, the development of which, in its turn, is still far from being ended. As a result, the fact of the implementation of JSC RAO ES of East's investment program is still questionable. So far the government has been the only guarantor to keep and develop infrastructure industries in the economically weak Far East, but the government has not been properly prepared to invest in the energy industry effectively (without tying in to megaprojects like the Asia Pacific Economic Cooperation Summit or the Olympic games in Sochi (*according to the materials of "Kommersant"*)).

## 4. TOWARDS THE 2018 FIFA WORLD CUP: SHORTAGE OF HOTELS ...



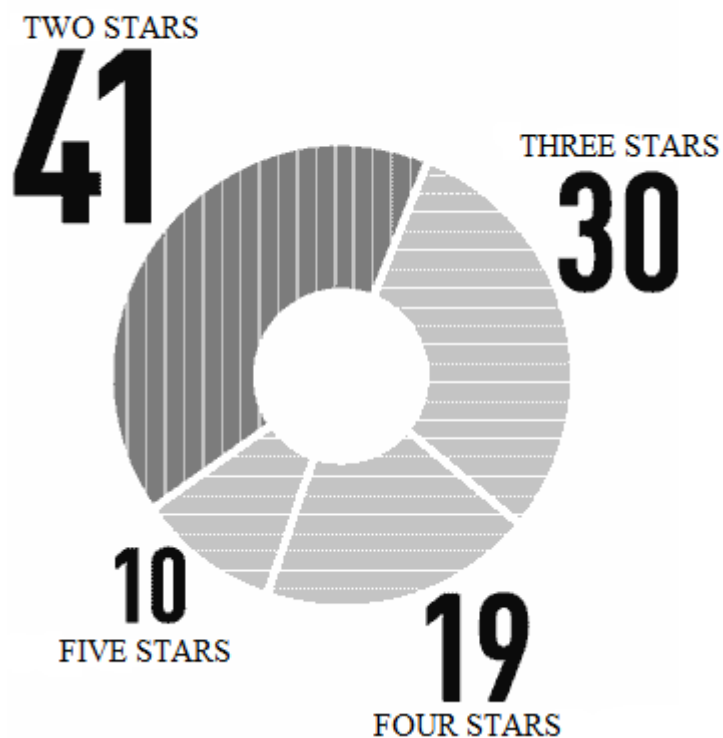
Some experts note that Russian cities which entered the final list of organizers to host the 2018 FIFA World Cup are provided with hotels of high price segments fairly well, but they lack of affordable and qualitative hotels at the same time. Meanwhile, some analysts warn that before building new hotels, it is necessary to think how to use them after.

Russia was awarded the right to host the 2018 FIFA World Cup in December 2010 and its bid initially comprised 13 cities: Moscow, Saint Petersburg, Kaliningrad, Yaroslavl, Nizhny Novgorod, Kazan, Samara, Saransk, Volgograd, Rostov-on-Don, Sochi, Krasnodar and Yekaterinburg, but then it was already known that as a result, the right to host the tournament would be awarded to 10 or 11 cities. As a result, the 2018 FIFA World Cup will be held at 12 stadiums located in 11 cities chosen by the International Association Football Federation – Krasnodar and Yaroslavl were cut off from the final list.

Sergei Choban, managing partner of the architectural bureau “SPEECH Choban&Kuznetsov” believes that the infrastructure of a city getting ready to host any large events should comprise a complex of objects intended to serve events including accommodation for sportsmen and visitors – hotels, special residential complexes, and camping sites.

#### SEGMENTS OF HOTEL BUSINESS MARKET, %

Source: [www.restko.ru](http://www.restko.ru)



According to Knight Frank’s Market Research Department, the International Association Football Federation puts forward clear requirements for hotel infrastructure of cities hosting the 2018 FIFA World Cup.

According to the experts’ figures, to host group-stage matches a city should have 3-5 star hotels with a total number of hotel suites being at least 1700 to lodge representatives of the International Association Football Federation, football teams, referees, and other official guests.

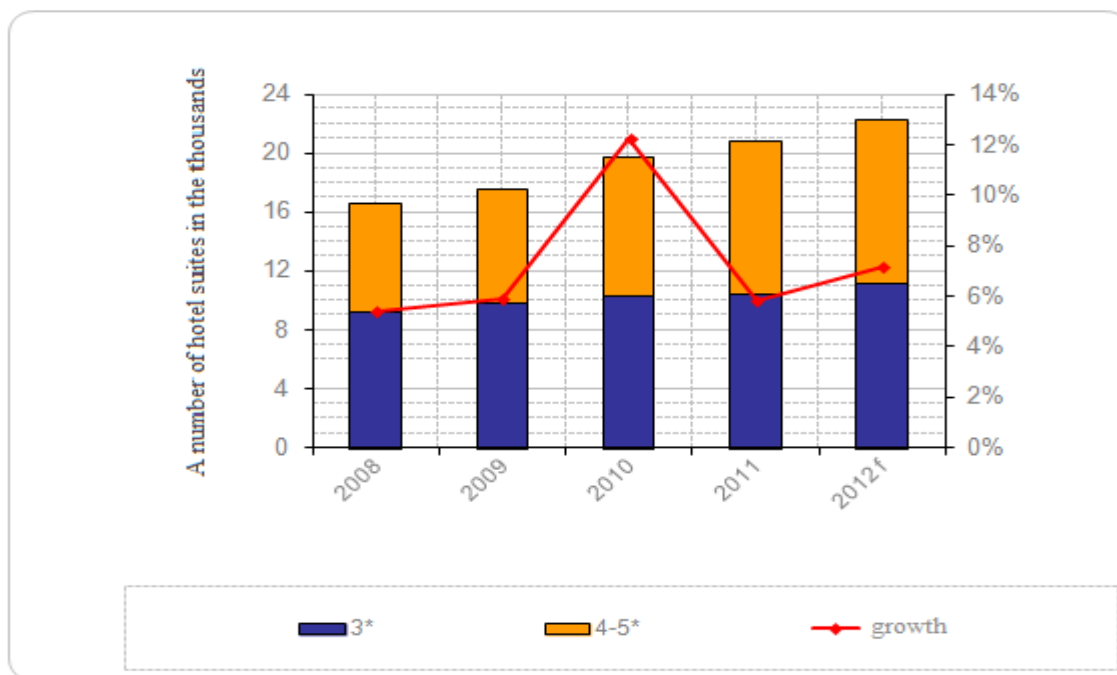
Moreover, to lodge football fans, within a 100 kilometer radius of a stadium there should be at least 6000 hotel suites with a 2 star level at least.

Meanwhile, a total number of hotel suites in any country hosting the

2018 FIFA World Cup should amount to 60000 as a minimum.



## Dynamics of putting into operation the qualitative hotel real estate in Russia



At the same time, of all the other cities which will host the 2018 FIFA World Cup, according to Knight Frank, only Sochi where there are about 9000 hotel suites has enough lodging facilities to host group-stage matches (at least 7700 hotel suites).

Kazan getting ready to host the Universiade 2013 and Yekaterinburg hosting large international forums often look very promising among others – their hotel fund amounts to 4000 and 3500 hotel suites respectively.

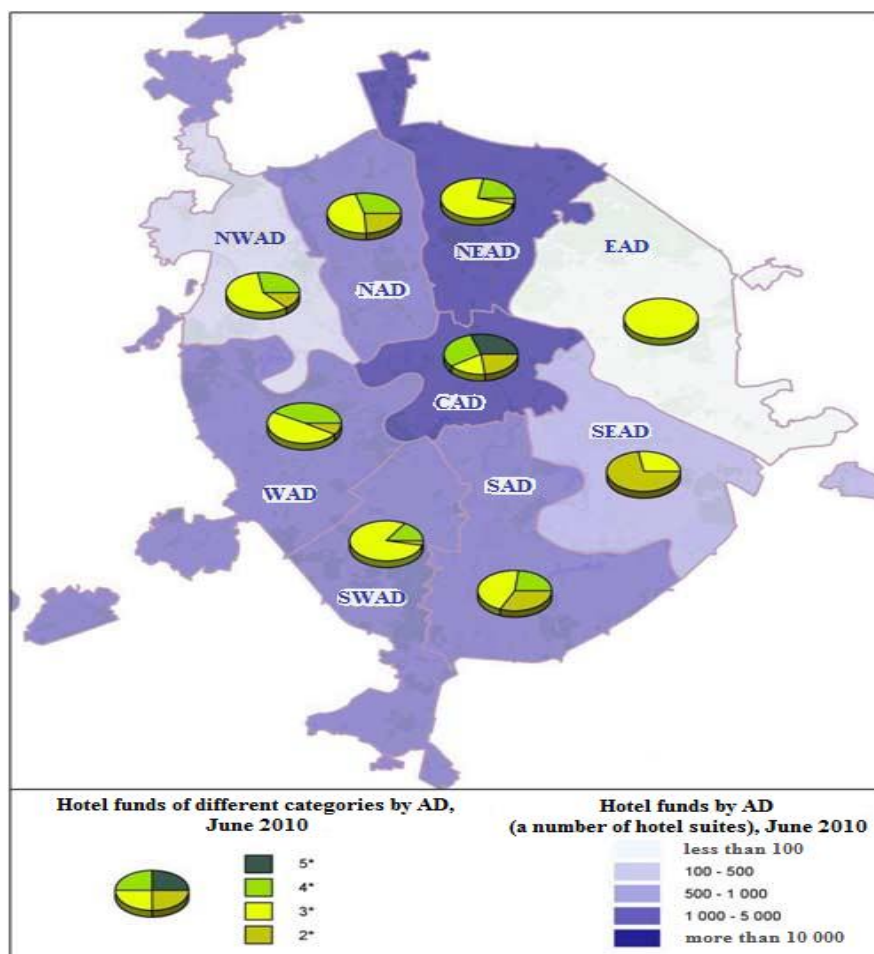
Meanwhile, Samara's hotels offer only 2500 hotel suites, Volgograd and Rostov-on-Don's hotels – 2000 hotel suites each, and Nizhny Novgorod's hotels – 2200 hotel suites.

The analysts point out that if in Kazan, Yekaterinburg, and Samara there are hotels of all categories, in Volgograd, Nizhny Novgorod, and Rostov-on-Don there are no 5 star hotels which should be to lodge official guests of the 2018 FIFA World Cup.

Meanwhile, according to their information, there are 5 star hotel construction projects in these cities: a Sheraton hotel with a capacity of 307 rooms is expected to be built in Rostov-on-Don, a Kempinski hotel with a capacity of 330 rooms – in Nizhny Novgorod. The experts point out that Krasnodar and Kaliningrad's hotels can offer about 2000 rooms.

At the same time, the experts asked by RIA Novosti believe that the cities which are supposed to host the 2018 FIFA World Cup have enough time to create the necessary infrastructure.

## Distribution of hotel funds in Moscow by administrative districts



According to his estimates, it will take two years to develop a master plan and to design its components and it will take three years to construct them. Meanwhile, according to Knight Frank, there is an unprecedented boom in hotel construction now. If many hotel construction projects in Russia were frozen in 2008 – 2010, nowadays there are positive tendencies to recover them.

Maria Usenko, Head of Jones Lang LaSalle Hotels in Russia and CIS countries, warns it is not worth overestimating the importance of the 2018 FIFA World Cup and building a lot of hotels in cities. The expert says that even the Olympic Games do not bring particular benefits – for instance, London did not see significant spending made by football fans at its restaurants and shops due to low inflows of its traditional tourists. Maria Usenko warns that if many new objects have been built by the 2018 FIFA World Cup, they may be out of use after the competition is over.

Alexei Mogila, Director of Retail Real Estate Department at Penny Lane Realty, has the same opinion on infrastructure construction. He says that many “normal stadiums” will have to be erected in all the cities except Moscow and Saint Petersburg to stage the 2018 FIFA World Cup. In his words, hotels have the same problem: how to cover costs of a new hotel whose average payback period is 15-16 years after the 2018 FIFA World Cup is over.

Anton Finogenov, Chief Executive Officer of Institute of Spatial Planning “Urbanica”, agrees with consultants who urge to think about using the 2018 FIFA World Cup infrastructure which should be built only after that.

In the opinion of the agency's interlocutor, besides the sports infrastructure, it is necessary to create modern social spaces and reserves for the engineering and transport infrastructure, to prepare sites for commercial construction, and to modernize investment legislation in the 2018 FIFA World Cup host cities.

The expert concludes that all these factors will become the basis for a long-term investment attractiveness of the 2018 FIFA World Cup host cities (*according to the materials of RIA Novosti*).

## ...AND STADIUMS.



**Summa Group intends to increase a number of stadiums which it is building for the 2018 FIFA World Cup. The total number of stadiums to be built in Russian cities by this event is 12. One of the stadiums is being erected by the company in Kazan. Summa Group will have to compete, particularly, with Transstroy owned by Oleg Deripaska to get other contracts.**

"We consider opportunities to participate in competitions for the construction of stadiums in all the cities which are going to host the 2018 FIFA World Cup," says the representative of Intex LLC (falls under the Summa Group). The company is in a list of participants who have filed applications for the competition on search of an executor of design works to prepare construction of stadiums in Rostov-on-Don (the contract value is about 940 million rubles) and in Volgograd (1092 billion rubles).



Opening envelopes on the competitions was held on November 19 and November 21. As for the project in Rostov-on-Don, Intex LLC put forward the most advantageous offer – a decrease by 18% from the starting contract price, in Volgograd – a more decrease – by 19% – offered by the other participant, Federal State Unitary Enterprise "Sport-Engineering" controlled by the Ministry of Sports. Besides Intex LLC, there are other

participants of the competition in Rostov-on-Don – FSUE "Sport-Engineering", Rosstroyengineering LLC (Saint Petersburg), local CJSC IBS, and Stroyinvestengineering SU-848 LLC (Moscow). In Volgograd – Rosstroyengineering LLC, FSUE "Sport-Engineering", E LLC, Masterstroygroup LLC, and Transstroy Corporation owned by Oleg Deripaska.

Russia was awarded to host the 2018 FIFA World Cup in the autumn of 2010. At the beginning of October 2012, the cities hosting matches were chosen: Moscow, Saint Petersburg, Yekaterinburg, Sochi, Kazan, Nizhny Novgorod, Samara, Rostov-on-Don, Kaliningrad, Volgograd, and Saransk. So far there has been no program concerning preparation for the 2018 FIFA World Cup – different variants are being worked over, among them is the offer of the Ministry of Sports to make FSUE "Sport-Engineering" the sole executor of the order to design all stadiums for the 2018 FIFA World Cup.

In architect Yuri Grigoryan's words, Russian general contractors almost have no experience in building stadiums and similar projects are isolated in their portfolio. Among companies having some experience in building stadiums are Transstroy, Engeocom, Summa, SPA Mostovik. 12 new stadiums should be built by 2018.

2 stadiums – Luzhniki Stadium (the contractor is not chosen; the construction will be financed at the cost of the city) and Spartak Stadium (the contractor is Stadium Spartak LLC; it is being built with the support of Leonid Fedun, LUKOIL's Vice President, chairman of the Board of Directors of football club "Spartak") – will host the 2018 FIFA World Cup in Moscow. In Sochi the stadium is being erected in the frame of preparation for the 2014 Olympic Games (the general contractor – Engeocom), in Kazan the stadium is being erected in the frame of preparation for the Universiade 2013 (the contractor – Summa Group). All the stadiums except Luzhniki Stadium and the arena in Yekaterinburg will be built from scratch.

The Ministry of Sports estimates the total volume of spending to prepare for the 2018 FIFA World Cup at 600 billion rubles (over US\$19 billion); half this sum is private investments, the rest is public investments. However, the budget may increase. So 314 billion rubles was put into the federal regional development program to finance the Olympic Games in Sochi, but then the spending increased up to 1 trillion rubles. Alexei Sorokin, the head of the organizing committee of the 2018 FIFA World Cup, does not exclude that the cost of preparing for the 2018 FIFA World Cup may exceed this sum.



The consulting company KPMG notes that in Russia the spending for building stadiums is not so high compared to figures of foreign objects. So initial investments in Luzhniki Stadium are estimated at €189 million, i.e. at €2116 per seat, and in Zenit Stadium in Saint Petersburg (the contractor is Transstroy) – at €316 million and €4547 per seat respectively. According to Gardiner & Theobald, an average cost to build stadiums of such a level is €6000 per seat which KPMG refers to. Transstroy explains that now the budget to build Zenit-Arena is estimated at 37.8 billion rubles (€945 million or €13600 per seat). As for a contractor, the profitability to execute a budget order does not exceed 5-7% of the contract value.

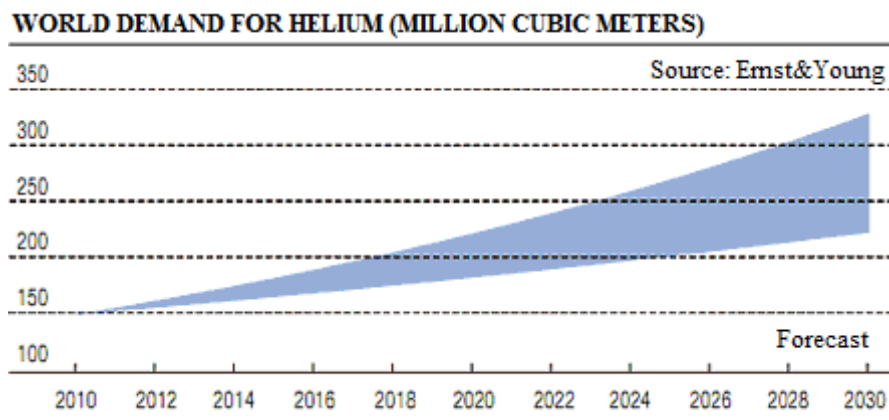
## 5. INVESTMENTS IN INNOVATIONS: HELIUM AS AN ALTERNATIVE COMMODITY.



**Russia has one third of reserves of one of the most innovative and potentially interesting gases in the world as a minimum – helium. Helium is used not only to inflate toy balloons but also much broader: in the aerospace industry, medical equipment, semiconductors and so on.**

Russian helium from the factory located in the Orenburg region was used to build a large collider. Liquid helium is a component to produce such unique devices as a magnetic resonance imaging scanner allowing carrying out diagnostics by means of scanning

internal organs. Helium is a new generation of airships which are capable of delivering cargos to hard-to-reach regions of Eastern Siberia. This commodity is for carrying out scientific experiments in the nuclear power industry.



Nowadays the world's helium requirements (150 million cubic meters in 2010) are fully covered thanks to extraction in the USA and to a lesser extent – in Russia. However, science and technologies do not stand still, which will stipulate a further increase in the demand for this kind of commodity in the range from 2% to 4% a year. And now it is necessary to think about resources to cover the increasing demand.

With our reserves (according to different sources, about 16 billion cubic meters out of 43 billion cubic meters of the world's reserves), if we take a look at the share of production and consumption of the global market, the score is definitely not for our benefit – 3.6% against 50% of the USA, 25% of Europe, and the rest – the fast-growing market of the Asia-Pacific Region. Qatar and Algeria have only recently begun developing the helium industry (after significant commodity reserves have been found on the territory of these countries in the process of geologic exploration of gas fields).

So, the USA has been a dominant player during a long time controlling over 50% of the world's helium market. The significant reserves of high quality gas-and-helium commodities with a helium concentration of over 0.5% are concentrated here.

In 1960 on the basis of the Helium Law, the Federal Helium Reserve Fund managed by the American Bureau of Mines was created in the USA. For these purposes in Cliffside, at the border of the Panhandle-Hugoton gas-and-oil field located in Texas, Oklahoma, and Kansas, the government provided the territory of 11000 acre. The Bureau of Mines extracted, purified, and accumulated helium as well as (in addition to its own production) bought it from private extractive companies on a long-term contract basis by injecting acquired commodities into reserve depositories. The companies having a chance to sell unlimited quantities of helium to the government invested significant money in infrastructure for extracting helium. At the moment of creating reserves, the optimal storage volume was at the level of 1.2 billion cubic meters. On the whole, US\$1.4 billion of the budget funds was spent on the project.

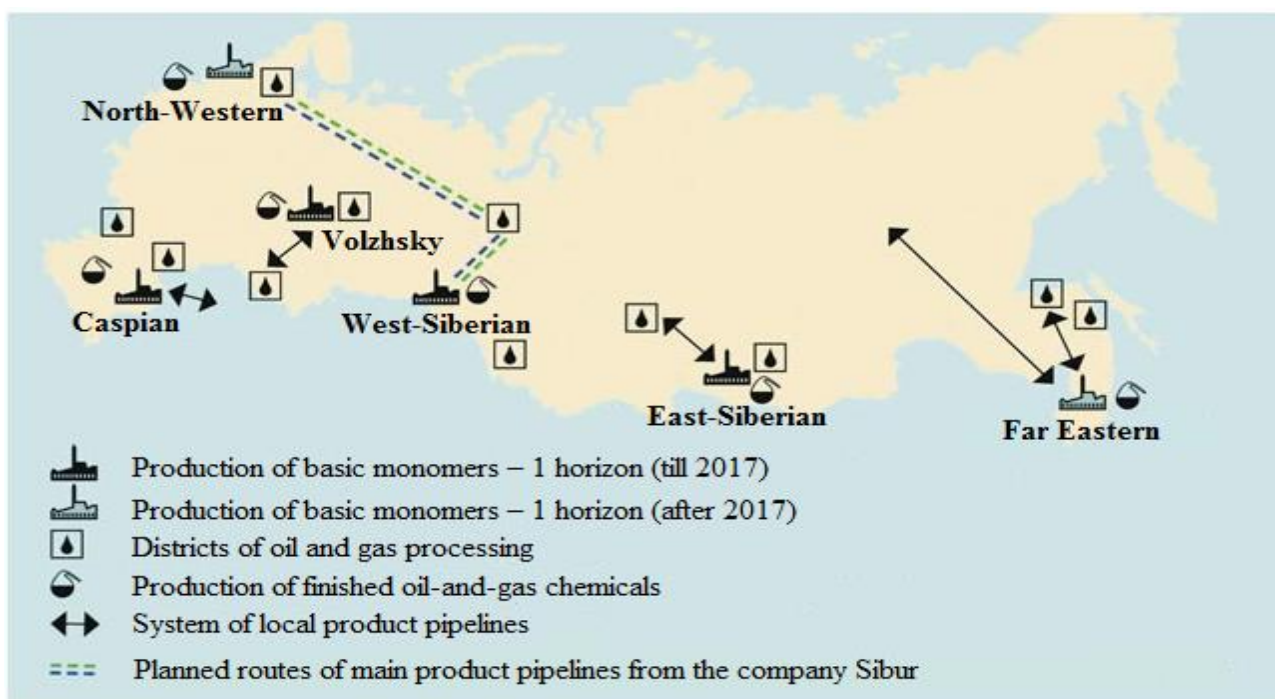
In 1996 the United States Congress approved the Helium Privatization Act prescribing to the Bureau of Mines to stop operations on purifying commodities in 1998 and to sell the Federal Helium Reserve Fund by January 1, 2015. According to the law, processing factories should be privatized, helium reserves remaining in the state ownership and exceeding 600 million feet (16 million cubic meters) – sold to private companies.

Field	Helium concentration (%)
Kovyktinskoe	0,28
Chayandinskoe	0,50
Yrubcheno-Tokhomscoe	0,18
Srednebotuobinskoe	0,20-0,0
Sobinskoe	0,60

Let us take a look at our potential. Gas fields comprise little volumes of helium in the European part of our country – from 0.05% to 0.06%. The West regions where there are gas fields with a helium concentration from 0.1% to 0.25% are almost exhausted at the present time (this concerns, particularly, the Saratov Region and the Komi Republic). Meanwhile, the gas fields in the Orenburg Region where the helium concentration is about 0.025% continue providing consumers with this valuable commodity not only in Russia, but also abroad.

The helium-bearing capacity of natural gases in Ciscaucasia, the Caspian Sea Region, Western Siberia, the Far East, and territories of the Arctic zone is slight (from 0.008% to 0.025%), which makes no economic sense to extract helium from such fields.

Having high quality figures, gas-and-helium fields in Russia is concentrated in Eastern Siberia. The concentration of helium is 0.15-1.0% there. The main areas with high levels of a helium concentration are Kovyktinskoe, Yrubcheno-Tokhomscoe, Sobinskoe, Chayandinskoe, and Srednebotuobinskoe fields.



Planned location of petrochemical clusters in Russia by 2030

Taking into consideration the worldwide experience, it is worth thinking of investing in the future. With the world's market being complex and volatile enough, demand for helium cannot be leaping as it is in the natural gas market. That is why predicting it has more consequential features (*sources: Kommersant, Ernst & Young, Big business*).

## 6. OUR PARTNERS' NEWS. THE AGENCY FOR STRATEGIC INITIATIVES: CREATING NEW "ROADMAPS".



In 2013 the Agency for Strategic Initiatives (ASI) is introducing two new "roadmaps" – for facilitating access of private business to credit resources and for investors' rights protection. As far as other projects are concerned, ASI is going to monitor social opinion by getting entrepreneurs involved in evaluating the results of the roadmap introduction. The Government has adopted 5 of 14 designated initiatives, although their full-scale introduction is due only by 2015-2018.

In the first quarter of 2013 the ASI is planning to develop two new "roadmaps" for improving the business climate in Russia (facilitation of access to crediting and investors' protection) and thus fully cover those 10 criteria according to which the World Bank makes out its Doing Business rating. However, the main task of ASI for 2013 is to create a system of social monitoring for the map implementation, noted Andrey Nikitin, the ASI general director, summarizing this year. So, a web-portal "инвестклимат.рф" is being built, which should become a common ground for interrogating business men on state regulation problems.

It is being planned to draw crowdsourcing to work on two new maps as well. The ASI underscores stockholders' evaluation of actions undertaken by a general director in corporate legislation and law practice. Such parameters of "Doing business" as insolvency and contract implementation will be considered within the abovementioned initiative.

As concerns "the availability of credit resources", it's proposed to pay heed to the information transparency of credit histories for borrowers and simplification of pledge schemes, which could require changes in the civil legislation or will be adopted in the federal law "On collateral", Alexander Pirozhenko, ASI director for partnership network, is saying. According to him, the main goal is to achieve consensus that 80%, or moreover 95% of the whole market finds it interesting, rather than 5% of the leaders.

All in all the ASI is working on 14 "roadmaps", five of which have been approved by the Government. There are maps for tax administration, export support and entrance to foreign markets, for easing access to the energy infrastructure and getting a building license and also for the property registration optimization. Swift results are not being awaited at the Agency, because the implementation as well as the map efficiency assessment is planned for 2013-2018.

An additional set of projects has been approved by the supervisory board of ASI and for the time being it's going through a concordance procedure with the administration. This includes maps for expanding access of SME to public procurement, optimizing enterprise registration and enhancing the quality of the regulation terms for business. Maps for reforming the labor market, improving tax administration, competition development and also a so-called "Red button", which means an efficient system of prompt response to entrepreneurs' appeals (*sources: "Kommersant, www.asi.ru*).

## 7. CONSUMER ADVICE: CREDIT CARDS.



Every tenth Russian citizen possesses a credit card. The market is growing at a frenetic pace: the number of credit cards emitted increased by 1.5 times in 2011.

The popularity of credit cards is easy to explain – so far, there is no alternative to this banking product. Meanwhile, credit card loans have some undeniable advantages over cash credits, one of which is the simplicity and universality in use. For instance, it is possible to pay by credit card both in Russia and abroad as well as on the

Internet. Moreover, according to Natalia Pshenichkina, Head of Active Products Department of LOKO-Bank, it is possible to pay off credit card debts over and over again and then to use the Bank's money again without passing through the procedure for credit approval.

The card will be useful if money is urgently needed, but there is no desire to go to the Bank to get a loan. As a rule, the loan limits are up to 300 – 500 thousand rubles; and the higher the class of a credit card is, the more serious the sums become. For instance, the limit on a Platinum card of VTB 24 is 2 million rubles. Oftentimes it is even more beneficial to use a credit card as most banks

have a grace period. In fact, it is a free credit when there are no charge for a debit operation on the card during 50 – 60 days (a so-called grace period). The client may keep money in the deposit without losing interests and borrow money till the payday using the credit card.

It raises the question about loan limits. As a rule, credit institutions point out the maximum credit card limit on the website and in the materials. In fact, the real situation is that 50 thousand rubles may be approved to the client instead of a possible maximum of 300 thousand rubles. Banks' representatives say that first of all, they look at the client's solvency – if the borrower's income is 30 thousand rubles a month, the Bank is unlikely to approve the limit of 300 thousand rubles. As a rule, the real loan limit is equal to 2 – 3 monthly incomes. Other factors are also taken into consideration. According to Timur Gagkuev, Product Manager of Credit Card Department of Home Credit Bank, the credit sum on the card for every client may be quite different, for instance, for the Bank's payroll clients and for the clients "from the street". "The credit card limit is composed of several components. First of all, it is the client's official income, his credit history, and the availability of other obligations including obligations in other banks. Meanwhile, despite the fact that the limits for new clients are lower in comparison with existing or payroll clients, most banks increase the limits as the borrower's positive credit history is compiled in the given bank," says the expert.



## Use credit cards correctly!

### **Advice 1. Find out the total credit value**

Any Russian bank has to inform you of the total loan cost on credit cards. Claim to reveal this figure. Finally, it may become the key factor to decide whether to apply for a credit card or not.

The total loan cost comprises maintenance expenses of a credit line including the interest rate charged for the credit use, different commissions and other costs in accordance with the Bank's tariffs. However, pay attention to the fact that the calculation of the total loan cost does not comprise rather many different payments including a commission for cash withdrawals, commissions for conducting foreign exchange transactions and another wide range of payments. In fact, even the final figure announced by the Bank may increase significantly.

### **Advice 2. Reject cash withdrawals**



Try to reject cash withdrawals within the credit limit. For every transaction the Bank will charge you 3 – 5% of the withdrawal amount, but not less than 100 – 300 rubles for every cash withdrawal. If you plan to withdraw borrowed money on the credit card, try to do it as seldom as possible.

It will be cheaper to withdraw 6 thousand rubles once than to withdraw 1 thousand rubles today, 4 thousand rubles tomorrow, and another 1 thousand rubles the day after tomorrow. At the rate of 5% and a minimum commission of 100 rubles in the first case you will pay 300 rubles, in the second – already 400 rubles. Most large shops honor cards – pay by them, otherwise you will have to overpay.

### **Advice 3. Monitor the date**

Monitor when the grace period ends. The Bank does not charge interests on the credit use during the grace period. In fact, the figure announced by the Bank never means that you have 50 – 55 days to repay the credit. There is a date of the beginning of the grace period. Oftentimes this date is set as the first calendar day of the month, but it may be set otherwise. Those very 50 days begin to run from this date. It is possible to repay the credit without paying interests during this period. If you take the credit on the first day of the current month, the grace period will be 50 days. However, if you take the credit on the 21st day, the grace period will be cut up to 30 days.

### **Advice 4. Pay on time**

Find out how the loan payment schedule is compiled at your Bank. For the payment delay is likely to lead to unexpected financial losses. If there is a one-day delay in repaying the credit, most banks charge penalties. Fines and penalties vary from 500 rubles to 1 thousand rubles. According to some experts' estimates, such sanctions may increase the loan cost by 1.5 – 2 times if the payer will break the loan payment schedule regularly. The regulators have long had a conversation to ban



bankers' similar independent activities, but so far the problem stays only at the level of discussion. And so far, besides additional expenses on the credit, the one-day delay in monthly payment results in entering malign information in the credit history.

#### **Advice 5. Set up SMS-notification**

Almost all large banks offer the sms-notification service to their clients. While setting up the sms-notification service you will receive short messages about any money movement in your accounts via your mobile phone. It is not an expensive service, but it is difficult to overstress its virtue. In the event of defrauders getting access to your credit card data and trying to transfer money, you will find out about it at once and will be able to block the card swiftly. Another advice: enter the Bank's hotline phone number in your mobile phone: even if your wallet or purse is stolen, you will be able to block your card swiftly without troubling yourself with the phone number search in horror (the source: "The Moscow News").

### **8. NO RISK INVESTMENTS: INVESTMENTS IN NUMISMATICS.**



The situation in the financial markets has not been stable recently. The private investors search for alternative financial instruments guaranteeing high yield. One of the quite stable and promising directions for investments is considered to be purchase of art objects and antiques.

Some experts remark that convenience and effectiveness of investments in numismatics – ancient coins, arguably, the most compact, extremely profitable and even homogeneous, “congenial” way of investment.

If we speak about initial investments, it is necessary to understand that large investments are followed by high return. If we speak about terms – in the absence of circumstances when it is necessary to release resources urgently – it is wise to consider a period of more than 1 – 2 years as a period for investment. In the right approach it will provide the growth of 20 – 30% per annum.

As the world coin trade practice shows, long-term investments in numismatic collections are more profitable than those in gold, brilliants, and classic antiques.

**If you have decided to start investing in coins, you should follow the next simple rules:**

**It is better to buy several rare and expensive coins than plenty of cheap ones (the rise in prices for the first ones is higher)**

**The term for which the coin is acquired, from investment point of view, is not less than 1 year, and it is better to keep it for 2 – 4 years and then to sell it**

**It is necessary to buy very fine coins – be sure to ask the seller for the certificate of authenticity for the coin; if you have coins, in any case, you should not try to clean them yourself – you may damage them, and the coins will lose their collector value.**

Owing to low “starting” prices, the prices for good collectible coins have increased by 3 – 4 times and have almost come up to the world prices over the past 10 years. Now the organizers of numismatic auctions estimate the annual growth of prices for products exposed by them at 20 – 30%. For instance, an 1876 25 ruble gold coin minted by order of Grand Duke Vladimir Alexandrovich with an issue of 100 coins was sold for US\$135000 at the Gelos Auction held in April.

It is necessary to have, at least, a good understanding of coins to invest in them correctly. It is necessary to take into account that serious collectors gather only Russian and Soviet coins in Russia. The prices for similar coins at foreign auctions are usually 20 – 30% higher than those at Russian ones. It is explained by the fact that they are all antiques which can be exported only with the special authorization.

**The oldest coin** in the world is often considered a stater or a 2 drachma coin which was made from an alloy of gold and silver and was minted in Lydia or Ionia (Asia Minor) circa 8th century B.C.E.

**The most expensive coin ever sold at an auction** is a 1933 gold Double Eagle coin with a denomination of US\$20. It was auctioned for the record sum of US\$7.590.020 on July 30, 2002 (*the photo on the right*).



Expensive coins as well as pictures should have their family history which sometimes traces back to the 19th century. It is related to fakes in a lot of ways. Here classic examples are some Soviet coins which were issued with very small mintages – it is enough to change the last figure of the year skillfully, and an ordinary 2 or 20 kopeck coin is turned into rarity. That is why all the coins are put up for auctions undergo an examination by experts.

New makers are valued among numismatists – copies of 17 – 18th century coins minted specially for collectors by means of original stamps, but already in the 19th century. As the mintage of such coins was usually from several coins to 100 coins, they are very expensive.

There is a rise in prices for copper Russian coins and medals. According to some specialists, “copper” is significantly undervalued and has great potential to rise. The price for the same coins at auctions dependent on their preservation has a starting prices spread reaching several thousand dollars. So two 1.5 ruble coins (10 zlotys) minted for Poland have a double denomination in memory of unveiling of the memorial – a chapel at Borodino Field. US\$5000 and US\$7000 were offered for them respectively. Even if the coin is not extremely rare, but it has polished preservation, the price for it skyrockets. For instance, an 1839 1 ruble rare silver coin of such preservation was sold for US\$20000.

**The most valuable coin** is considered an ancient Greek tetra-drachma silver coin known among numismatists as the Etna tetra-drachma (the photo below). It is the only one preserved to our days. The Etna tetra-drachma has been preserved at the Royal Library in Belgium during a period of more than 100 years. The experts call the ancient Greek coin the “Mona Lisa” of ancient currencies and estimate it at US\$ 3 million. This coin



has never been auctioned, but if it is put up for auction, the price may exceed the value of a Double Eagle coin.

There is a great demand for rare coins of the Soviet Union. Mainly, it is proof coins which were not introduced in series or were issued with small mintages. So a 1953 50 kopeck aluminum proof coin was sold for US\$5000 with a starting price being US\$3000. A 1925 0.5 kopeck proof coin was sold for US\$3800 at another auction. Silver rubles as well as 50 kopeck coins of the 1920s are highly valued, but it is imperative that coins be in very fine condition. So a 1924 50 kopeck coin with a smooth edge was sold for US\$800.

Thus, the yield of investments in numismatic items in the Russian market agrees with the worldwide tendencies. The given type of investment is comparable with investments in the most profitable shares and bonds of leading companies (according to the materials of the websites: *wikipedia.org, styleofmoney.com, 234555.ru/publ/11-1-0-226*).

## 9. INVESTOR'S ABC: MAIN TERMS OF INVESTMENT PLANNING (FOLLOWING ISSUES № 23, 24, 25)

### What are the main mistakes made in business-plans?

Banks have recently toughened their requirements for business plans submitted by borrowers. The most common mistakes are:

**Overestimation of a product introduction possibility.** An ill-considered marketing strategy, overoptimistic sales forecast provokes questions from a credit expert.

**Overstatement of an end-price of goods, which formally entails in good financial-economic rates of a credit project.** Meanwhile, there are two variants for explaining the reasons of such overvaluation. On the one hand, it might be the result of self-deception, when a client either used the wrong information about the market, on which he'd never worked before, or he utilizes a price of a one-time badge of goods sold. The worst variant is when a business man distorts deliberately price parameters in hope to get a credit come hell or high water, counting on non-purpose use of funds.

**Understatement of cost related to implementing a presented project.** Usually it applies to all sorts of expenditures – from raw material prices to shipment and salary expenses. Special attention is paid by an expert to exclusive relations with purveyors, which could be recognized as collusion. Other cost items are checked by the credit expert for compliance with existing norms, tariffs, rates, etc.

**Taxation** is among the most understated and sometimes simply ignored expenses. The process of carrying out a project could be influenced by the peculiarities of a tax calendar applied to such kind of business. For instance, an entrepreneur will have to face a full VAT payment in the accounting month only because of the ill-conceived indication of the disposal date, whereas VAT setoff for purchased material assets will be in effect only in the following year. Naturally, it will cause a credit redemption schedule disruption, penalties and, as a result, a distressed loan.

- **Correlation of credit terms with the speed of commodity operations turnover.**



Normally, loan terms for commodity operations make up 3-4 months and the source of returning the principal debt is sales proceeds. After successfully completing the first credit project a client already earns a positive credit history, therefore it's much easier to get the second credit. Having obtained the second credit an entrepreneur makes a new turnover and so forth until the natural default. The fact is that the real period of crediting a commodity operation significantly surpasses the term of one turnover. Actually, the return of the credit is only possible by means of accumulation due to net revenue equal

to the size of the principal debt. Therefore, a project feasibility study for such a project should have a more distant horizon, so the risk of the project increases automatically.

#### How is the information within the business-plan checked?

The main goal facing an expert at the stage of complex expertise is to evaluate the feasibility of the project including the conformity of the initial information presented in the project.

Various means can be used for this, which on a large scale could be divided into two groups:

- cabinet
- field

Cabinet methods of expertise imply validation and feasibility of initial information, presented by an applicant, using various other sources of information. It comprises diverse printed and electronic information and also market information, received by the expert via firms and organizations of similar profile. For example, in order to check the conformity of prices for goods and services of an enterprise, the expert may call several companies of similar profile to enquire about their price level and juxtapose it against the declared one.

Even if the applicant has submitted copies of the contracts for purchasing raw material and finished goods sales, the expert carries out a selective verification of indicated partners by addressing them anonymously with an offer to buy or sell some sorts of goods and services.

If the process of such verification has some difficulties, then the project is forwarded to an appropriate organization for a special expertise.

If on the results of the cabinet analysis the experts come to a positive evaluation of the project in question, then the field analysis comes next, during which the expert assesses the validity of the information when visiting the place of implementing the project. If within the frames of the project the applicant has another activity besides the planned one, the expert must become familiar with it.

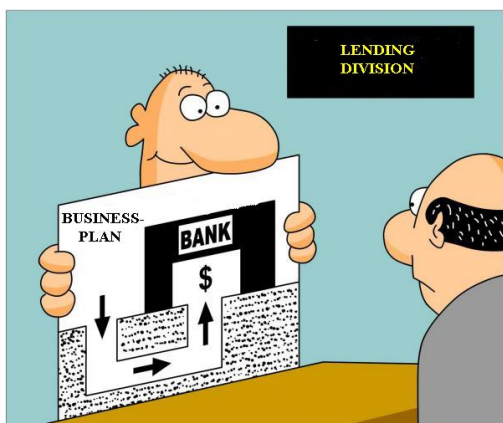
Meanwhile, special attention is paid to indirect factors, indicating state of affairs within the company, such as the condition of manufacturing and warehouse rooms, the condition of the equipment, stock and finished goods and so on. Supplementary information about the company activity can be acquired by talking to its personnel.

**What contracts and projects, providing the project implementation, have to be presented to the bank?**

The authors of the project have to submit not only the main contracts in terms of goods delivery or carrying out building-assembly works and equipment delivery, but auxiliary ones: for transportation, forwarding, security, insurance, custody, etc., so that the expert could make sure the client reasoned out how to implement the project, understand all the risks associated with each stage and tries to find coverage for them.

The credit expert finds out if the submitted document is drawn up correctly legally-wise and to what extent it protects interests of potential borrowers.

**What data about the financial condition of the borrower is of credit expert's concern?**



As a rule, it means standard statements (a balance sheet for the reporting and previous year, profit and loss account), delivered to tax authorities as well as special reports, for example, banking account statements, confirming the volume and nature of money turnover.

It's no secret, that financial statements are not a surefire base in Russia. The main reasons of such a situation are both systematic financial statements distortion by practically all business entities and the lack of principles of writing financial statements. But it doesn't mean that one can do without analyzing financial statements. If financial statements don't prove a good reputation of a firm, a credit expert has additional chance to find out the true state of affairs. Actually, either a firm-applicant loses all chance to get a credit for formal reasons or it has to unveil how it covers up its turnover and revenue. Besides that, the credit expert alongside the potential borrower has to develop an access scheme to these "hidden treasures" to secure the bank interests in case of the project implementing. All of these possibilities open only when analyzing carefully financial statements and determining a set of formal basic ratios characterizing the ability of this client to pay.

**What are the main ratios utilized when analyzing the financial condition of the company?**

The ratios used to analyze a credit project are standard enough, widely described in the financial-economic literature. The most widespread are the current and absolute liquidity ratios, the equity ratio.

All of these indicators are based on grouping and calculating the relation between different items of assets and liabilities on the balance sheet.

The current liquidity ratio is used to show the company ability to pay back its short-term liabilities with its short-term assets and is calculated as a ratio of the sum of totals of sections II and III of assets on the balance sheet to the total of section II of liabilities on the balance sheet. Naturally, some clarification is needed; in particular, several articles of section II on the balance sheet must be excluded, which, by their economic sense, are not liabilities. These are reserves for doubtful debts, consumption funds, deferred revenue and also long-term credits and loans, which are not long-term by their definition.

Acid test determines whether a firm has enough short-term assets to cover its immediate liabilities without selling inventory (at the expense liquid assets). Formally this ratio is calculated by dividing the total of section III of the balance sheet to the total of section II of liabilities on the balance sheet.

The capital ratio is calculated as a ratio of difference between section I of liabilities and section I of assets to the sum of totals of sections II and III of assets, i.e. it indicates the share of working assets of the firm accumulated due to its equity.

Corresponding adjustment of the balance sheet articles using only aggregated data of the balance sheet is impossible, that's why a credit expert needs the information from the appropriate registers of the analytical balance sheet.



### Is it possible to obtain a credit without pledge?

Irrespective of whether the business-plan is wonderful, promising the highest yield, incredible turnover speed, occupation of a new market niche, etc., but having no security to mitigate credit risk, it's unlikely to be considered by a bank. If a company having no liquid assets applies for a credit, even if it is known and reputable with considerable amount of funds invested in real estate, stock and etc., it stands no chance for success if these assets are encumbered with liabilities.

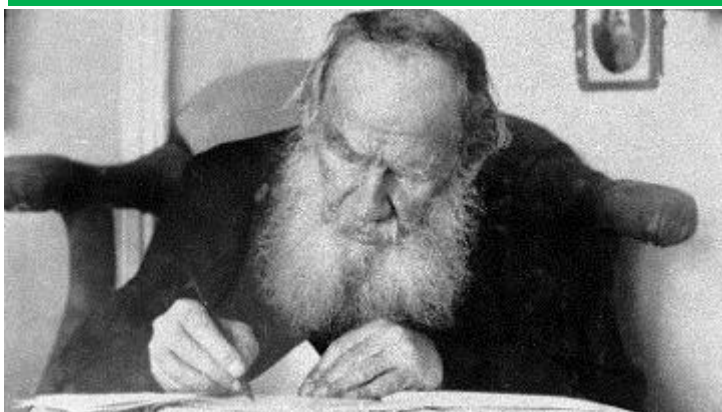
Sure, there are venture projects, sometimes credits can be delivered against the name of the firm in order to get it enticed to a bank-competitor. Nevertheless, the rule of thumb is that, with rare exception, one can't be credited without pledge.

The crucial question is a quality of pledge, the main criteria



of which are its liquidity (ability to sell an item in a rather short period and without considerable loss) and a level of bank control over pledge.

## 10. THE INVESTMENT BACKGROUND OF 2013 IN THE EYES OF RUSSIAN WRITERS.



**What would Russian writers think of those scenarios, which foreign investors will face, calculating auspicious opportunities and risks expected in Russia-2013? *Business New Europe* decided to enlist some of the most eminent Russian classics to discover that.**

For nine factors laying down the following investing case, we have selected 9 authors to put forward our arguments based on their works. Of course, when talking about Russia, we can use Dostoevsky's or Gogol's works, about who Dostoevsky said: "All of us have grown from Gogol's "Shinel" ("Overcoat"). If you have read a "Mertvie dushi" ("Dead Souls") novel, then you know for sure that the book served as an illustration of the society and an example of how one can get money even in very unusual situations. Russia, in spite of a large number of regularly appearing unpleasant headlines, has become the most profitable country in terms of investments (on the leading markets) for the last 10 years, in the teeth of the crisis of 2008.

There is no happy end in classical Russian literature. The problem about works of Russian classics is that you can barely find a book with a happy end. Usually it is decease. The only epilogue that could be counted as a happy one is deliverance from woes and torment. But someone might soon have grounds to write one with a happy ending. Below we are bringing forward main market scenarios and investment topics and will support them with illustrations from Russian classic works.

### External threat: "War and Peace"



War at first, then peace. An epic work by Leo Tolstoy, it is quite a natural pick and an illustration of how we see the investment background in 2013.

The first half is going to be fickle and unquiet, while the second half is going to be more peaceful. The first act takes place during the war against Napoleon and its culmination becomes the Battle of Borodino. The war led to a colossal economic and social destruction, but the country was able to recover. It is similar to the demolition provoked by the world crisis of 2008, which led to a huge reduction of financial reserves of Russia and the decrease of the

economy. However, as in the “War and Peace” book, the menace has changed and the economy has got on its feet to oppose external danger.

It is a kind of a happy end. The Tolstoy’s Peace is with tears in its eyes, because not all its heroes survived. It all ended up well for Pierre and Natasha and it didn’t seem bad for Nikolay and Maria. But even here the impending Decembrist uprising threatens to demolish a sustained world.

Tolstoy maintained that only half of the population could make changes. As he declares in his analysis, written later on, his novel shows that great deeds and changes can’t be made by certain individuals and heroes and it can only be the result of multiple smaller events triggered by thousands of people. Here it’s possible to draw a parallel with the emergence of the middle class in Russia, due to which a new chapter might appear over time, that won’t be the result of endeavors of a great leader.

A conflict will commence in 2013, but we expect peace in its second half. In the forecast for the year 2013 we believe that the talks in Washington between the White House and Congress, which will run simultaneously with constant actions of EU leaders to hold back a euro zone crisis, are going to result in the volatility retention on the world markets, which will go along the risk abatement and strengthening. There is hope that by summer all of these problems will have a more sustainable and structured resolution, which will create more favorable conditions for the markets in the second half of the year. The Chinese government is officially inaugurated in the middle of March and there is a re-election campaign for German Chancellor Angela Merkel held next autumn. Neither she, nor her faction is willing to start the campaign with unsolved issues.

### Oil vulnerability: “The Master and Margarita”

Russia was tempted by oil. The novel of Mikhail Bulgakov is an apt metaphor for Russian oil revenues. Caspian oil is sometimes called “devil’s blood”. Just as professor Woland arrived in Moscow with a desire to better the fate of the city’s literary elite, so petroleum profits were augmenting drastically during the first Putin’s presidential term, transforming Russia’s economy. But 2008 unleashed its “sting”, oil prices dropped and the economy faced total chaos. Just as Woland tries to tempt the novel heroine Margarita with promises about good perpetual life, so Russia was tempted by a seemingly never-ending rise in oil prices before 2008.

And here it’s appropriate to mention the Middle East aspect. The action in the novel evolves both in Moscow and Jerusalem, which is very relevant, considering the current events in the Middle East and their repercussions for “the risk premium” of the Brent and Urals brands.

Oil is going to be in a vague state from six to nine months. We deem that the risk premium is going to remain the same at least during the first part of 2013 or even longer, depending on what will happen in Iraq. The military strike is more likely to take place in 2013, because of which the prices will come up, but only for a short period of time. So, the oil forecasts for 2013 are favorable again.



But in 6-12 months the future looks less optimistic. If the recovery rise of American, Canadian and Iraqi oil comes true, then oil prices are likely to go down and this decrease will last for 2-4 years. It might very well to completely change the situation in Russia, in particular if the budget doesn't correspond to the requirements during this period.

### Russian reform programs: "Crime and Punishment"

It will be possible to evade rigid and difficult problems. As one prominent reviewer tells, the Fedor Dostoevsky's novel tells about Raskolnikov, about his "conflicting emotions of self-abhorrence and pride, contempt for others and need in others and dreadful despair and hope for redemption". It's a very opportune analogue for the Russian reform program, because it's



very evident that the problems should be solved, albeit the authority prefers not to take any measures that might be unintelligible from a political and social standpoint.

But sooner or later the problems will have to be settled. Poignant efforts of Raskolnikov to withstand everything that pushed him to commit homicides, since he was quite sure about the aftermath of his deeds.

Do not expect much in 2013 in terms of confrontation because of the reforms. Maintaining internal stability (both social and economic) is the priority in Russia and it will have enough financial resources to keep such stability if the price for Urals oil doesn't go higher than 80 dollars per barrel. Although the reform program is an appreciable matter and if there are no changes, the long-term negative consequences will be quite real.

The change of the sphere of financial services will remain in effect. There is a sustainable moving ahead being executed in the financial sector and the National Settlement Depository has finally been established. In the beginning of 2013 Euroclear and Clearstream are expected to gain access to the local securities market. The main debates within the reform theme are most likely to be about pensions. It's one those "bulls in a china shop" that will have serious consequences for the budgetary expenditures, pension age and immigration policy, etc. This matter must not be ignored anymore and it's going to be a real trial of the state authorities for determination and accord.

## Internal economic development: “The Queen of Spades”

There are no easy ways to prosperity. In his novel Alexander Pushkin narrates a story about an aged countess who concludes an agreement with the Devil and exchanges her soul against the ability to win at cards games. Then an army officer slays her to get a secret of winning at cards games, but the woman’s ghost follows him. The Devil again, he often appears in Russian literature works. As a matter of fact it’s a story about obsession with win and aspiration for being always ahead, even if one’s soul and mind are required in exchange. We can use this work pondering over oil profit deals and consequences of refusing from reforms in favor of a gambling ante for maintaining high oil profits.

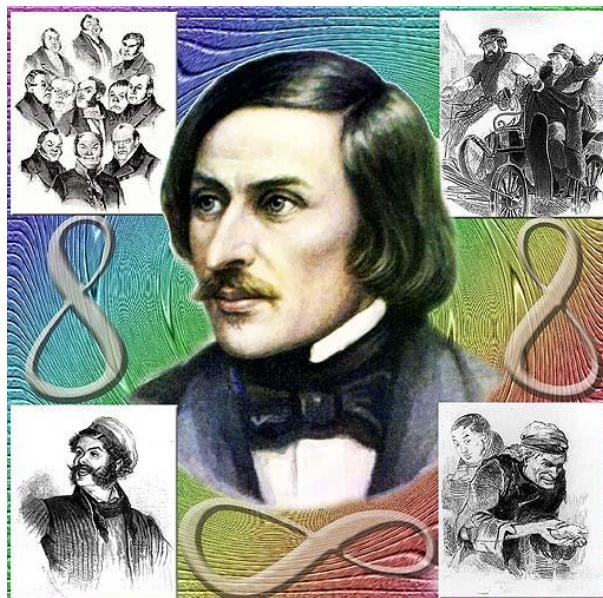
And here there is a warning: the increase might be brief. The development of the economy is one of the key investment topics in Russia. Such development, including a powerful increase in consumer expenditures, is one of the leading factors of gdp growth in the last few years and also a foundation of our preference for shares and investment directions. But as other works of the classic maintain, if there are no reforms and a man continue counting on good luck, then it will sooner or later end.

In 2013 we are still going to prefer our national matters. But the most preferable is shares in retail industry, real estate, transport, telecommunications, mass media, technologies and banks. We expect the continuation of the rise with double digits in the middle term.



## Strategic fields: “Dead Souls”

Investing in assets without value. Gogol’s “Dead Souls” is a typical work of Russian literature, keeping its urgency to this day. Its main hero Chichikov humbugs landowners offering them to sell him useless dead serfs. Chichikov explains to them that he needs the dead souls for authority and respect, because he is going to become a landlord in Siberia.



Perhaps, it’s the best comparison to state property in the form of strategic enterprises, especially in the oil and gas sphere, but quite close. With a high tax rate and rigid norms of state regulation many companies’ shares in these fields are quoted very low as opposed to ones in other countries. And investors rate them lower comparing to other fast developing companies of Russian industry.

For some people everything has value. The country is executing the policy of increasing dividend payments and promises a field rearrangement within the privatization program, which will be carried out gradually. If it comes out well, then share rates will go up.

Landlords unmasked Chichikov with his cunning and he had to escape from the city without fulfilling his plans. Gogol wrote a sequel of this work, but burnt the most part of it. That's why we don't know how he envisioned the further implementation of Chichikov's plan.

The Russian scenario has not discontinued as well. In contemporary Russia a state scenario for the energetic sector has yet to be finished and published.

### Economy control: "A Hero of Our Time"

Be careful with what you wish for! "A Hero of Our Time" is a complicated work and it means something in Russian literature. This work by Mikhail Lermontov is often used as an example of such cautiousness with wishes. For some time the main hero Pechorin has love relations with two women simultaneously and when he rejects one of the two the other decides that she doesn't need him either.

It will be hard for the country to satisfy its desire to control strategic fields, simultaneously attracting investors. This story is a reflection of how the country strives to keep its control over strategic fields and promises to propel economy and business reforms, making Russia more attractive to foreign investors.

Trying to satisfy both lovers for a long period of time is doomed to failure. By the time you decide on your preferences it might be too late and you are going to lose on both fronts.



### Epilogue: "The Noble Nest"



You let the past behind and it pursues you. In his novel Ivan Turgenev tells about Lavretsky, who was brought up by a lonely severe aunt at a family suburban estate. Together with his wife he leaves Russia for Paris, but she betrays him. Coming back to Russia, Lavretsky becomes enamoured with another woman. Having read about Varvara's death, he decides to marry his new passion. But Varvara appears to be alive and well, returns to Lavretsky and wants money from him. She makes his life unhappy.

Is there a parallel with modern Russia? Will Russia return to a less optimistic and happy existence full of regret and longing for the unfulfilled, having parted ways with the severance of the Soviet past to accept foreign image of life and dwell tranquilly and happily. In 20<sup>th</sup> century this chapter has not yet been written.

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Dear friends, welcome to Ekaterinburg!

**We are pleased to share with you our plans to bring the World Expo to Ekaterinburg in 2020.**

Since its inception in 1851, the World Expo has been held 53 times in 15 different countries around the world. Yet, it has never been held in Russia.

Our bid to host this great event represents the continuation of Russia’s active engagement and outreach to the world. If given the privilege to host the Expo, this event will serve as the intellectual and commercial parallel to the great athletic events that precede it — the 2014 Olympic Winter Games in Sochi, and the 2018 FIFA World Cup.

Ekaterinburg truly captures the spirit of Modern Russia. What was once a geographic frontier is now:

- a city on the cutting edge of science and technology,
- a city that is home to 45 institutions of higher education and 20 academic research institutes,
- a city that is undergoing a transformation in residential, commercial, and transportation infrastructure.

Ekaterinburg is an ideal symbol of Russia’s future, and the significant national and international investment in this city is a strong and confident testament to our shared vision of commercial growth and success.

Our theme for Ekaterinburg Expo 2020 is The Global Mind, Uniting All Humanity in a Single Conversation.

Today’s technology enables us to understand humanity in a way that was completely unimaginable just a decade ago. It is now possible to engage in a conversation that includes hundreds of millions, perhaps billions of people.

So now imagine if we were to ask the seven billion people from around the world the same question — a question such as “What are the most important issues of our time?” And imagine if we could distil the billions of answers down to a coherent, meaningful and representative set of responses? This is the essence of The Global Mind

Our vision is to capture, for the first time, an historic data point on the world’s opinion by posing six universal questions. The cumulative response to these questions will create, in effect, the first true portrait of The Global Mind.



I look forward to your support and to welcoming you to Ekaterinburg!

**Eric Bugulov**  
**Chief Executive Officer of the Ekaterinburg**  
**Expo 2020 Bid Committee**